The Impact of Financial Risk on Corporate Financial Performance in Algeria: A Case Study of Saidal Company During the Period 2000-2024

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Abstract:

This study examines the impact of financial risk on Saidal Company's financial performance during 2000–2024 using the Vector Autoregression (VAR) model, with Return on Equity (ROE) as the dependent variable and debt ratio, financial autonomy ratio, current liquidity ratio, and firm size as explanatory variables. The model is statistically significant and explains 43.26% of performance variations. Debt ratio and financial autonomy show positive but insignificant effects on ROE, while current liquidity has a significant negative effect, reflecting the opportunity cost of liquidity reserves. Firm size has a significant positive effect on ROE, highlighting the role of expansion and economies of scale in enhancing financial performance.

Keywords: Financial Risk; Financial Performance; VAR Model; Saidal Company; Algeria.

Jel Classification Codes: C32, G32, G39.

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1. INTRODUCTION

Financial risk management represents a fundamental challenge for large industrial corporations operating in economic environments characterized by volatility and uncertainty. In this context, financial profitability is a critical indicator of corporate financial performance, as it reflects the efficiency of management in utilizing available resources and generating sustainable economic returns. For a strategic enterprise such as the Saidal Group, maintaining a balance between minimizing exposure to financial risks and maximizing profitability is not merely an administrative objective but a strategic necessity for ensuring the company's continuity in fulfilling its pivotal role in pharmaceutical security while strengthening its competitiveness in both domestic and international markets.

Amid growing economic challenges, the relationship between financial risk and financial performance has attracted increasing attention in financial and econometric research, particularly in the case of Saidal Group, given its efforts to balance market share expansion with the effective management of costs and financial obligations. However, assessing the extent to which financial risk affects the company's financial performance requires a rigorous econometric approach capable of capturing the dynamic relationships among the relevant financial variables. Accordingly, this study investigates the impact of financial risk on the financial performance of Saidal Group over the period 2000–2024 using the Vector Autoregression (VAR) model. Specifically, the study examines the effect of the debt ratio, financial autonomy ratio, current liquidity ratio, and firm size on Return on Equity (ROE), which is used as a measure of financial performance.

Study Problem

Building upon the foregoing discussion and to comprehensively examine the relationship between financial risks and financial profitability within Saidal, this research paper seeks to address the following central research question:

To what extent do financial risks influence the financial profitability of the Saidal Group during the period 2000-2024?

This main question gives rise to the following sub-questions:

- What is the magnitude of the impact exerted by financial risks, namely liquidity risk, credit risk, and operational risk, on the company's financial profitability?
- Is there a statistically sig relationship between financial risk management and the level of profitability achieved?
- To what extent does the financial profitability indicator reflect Saidal's efficiency in managing financial challenges throughout the study period?

Study Hypotheses

To contribute to answering the proposed questions, the following hypotheses were formulated:

- **First Hypothesis:** There exists a statistically sig inverse relationship between increasing levels of financial risk and the financial profitability of the Saidal Group.
- **Second Hypothesis:** Financial variables used as risk indicators exert a direct effect on financial profitability adopted as a criterion for evaluating the company's financial performance.
- **Third Hypothesis:** The econometric model employed possesses strong explanatory power in identifying and capturing the impact of financial risks on the stability of the company's financial performance.

Study Significance:

The significance of this study lies in diagnosing the financial performance of the Saidal Group from a risk management perspective and providing an analytical framework grounded in quantitative evidence to support decision makers.

Study Objectives:

The study aims to achieve the following objectives:

- To analyze the impact of financial risks on financial profitability as a tool for measuring financial performance.
- To identify the dynamic interactions between implemented financial policies and the risks arising therefrom.

- To propose operational recommendations aimed at improving financial risk management mechanisms in a manner that ensures the sustainability of profitability and strengthens the company's financial solvency.

Study Methodology:

This study adopts a descriptive-analytical approach to establish the theoretical framework of the study variables and employs an econometric methodology using appropriate economic models to analyze the time series data of Saidal over the period 2000-2024. This methodological combination is intended to ensure the accuracy of results and facilitate the interpretation of causal relationships among the variables under investigation.

Literary Review

Financial risk management constitutes a fundamental pillar of contemporary institutional strategies, as empirical evidence has consistently demonstrated a significant relationship between the efficiency of managing financial risks and the level of financial performance. In this regard, the study by (Chitta & Soni, 2023, pp. 18096-18110) found that the adoption of proactive financial risk management practices not only enhances organizational stability but also serves as a key driver of long-term performance. From a conceptual perspective within developing economies, (Lasloom, 2020, pp. 171-177) emphasized that corporate exposure to financial risks is inevitable and that variations in profitability levels are largely attributable to management's ability to adapt to such fluctuations within highly risky investment environments.

From a quantitative perspective, the study by (Bello and Other, 2024, pp. 49-56), conducted on Nigerian banks, revealed a statistically sig relationship between specific categories of risk and profitability indicators, indicating that these risks exert direct pressure on net returns. Within the Algerian context, the study by (BENMESSAOUD & MESSAOUDI , 2023, pp. 267-283) reported mixed findings. The results showed that capital adequacy exerts a positive effect on return on assets, whereas credit and liquidity risks did not demonstrate an immediate significant impact within the study sample, reflecting the structural specificity of the banks under

investigation. Similarly, in the small and medium-sized enterprise sector, (Ahmed & Wafula, 2023, pp. 278-290) confirmed that credit and market risks represent critical determinants of profitability levels, as increases in these risks lead to a substantial deterioration in financial performance.

Other strands of literature have focused on the phenomenon of financial distress and its implications for organizational performance. (Eldin, 2025, pp. 3-24) highlighted the importance of early warning systems in detecting financial distress to prevent the erosion of financial performance among Egyptian firms. Likewise, (Shammari, 2024, pp. 369-407), in the context of Kuwaiti banks, demonstrated that risk self-assessment systems contribute directly to enhancing both financial and operational performance efficiency. Regarding capital structure and corporate social responsibility, (Mahesar and Other, 2015, pp. 11-29) indicated that capital structure decisions, particularly debt ratios, have a direct impact on the magnitude of financial risks faced by Pakistani firms, thereby requiring management to maintain a careful balance between financing choices and risk exposure to maximize returns. Finally, (Oikonomou & Brooks , 2012, pp. 483-515) argued that corporate social performance functions as a mechanism for mitigating financial risks, which in turn enhances firm value and reduces return volatility.

2. The Relationship Between Financial Risk and Corporate Financial Performance

The market value of shareholders' wealth is fundamentally built upon three key pillars: the magnitude of expected future net cash flows, their timing, and the level of financial risk faced by the firm. An increase in expected net cash flows generally leads to a higher market value of the company. Conversely, the likelihood of financial distress is positively associated with both the volume of cash obligations required to support core business activities and the degree of volatility in these cash flows. Accordingly, limiting potential losses arising from exposure to financial risks is of critical importance, as reducing such risks decreases cash outflows while strengthening inflows, thereby exerting a positive influence on stock prices. This relationship reflects the concept of the "cost of

financial risk". Consequently, maximizing the firm's market value depends largely on strategies aimed at minimizing these costs (Barbash & Tabib, 2012, p. 12).

Within this context, liquidity shortages represent one of the most critical factors affecting a company's ability to meet its obligations within specified deadlines. Such constraints often compel management to resort to costly financing arrangements to secure immediate liquidity, inevitably leading to profit erosion or financial losses, and, in extreme cases, bankruptcy. For financial institutions, particularly banks, the consequences of liquidity shortages extend beyond operational difficulties to threaten creditworthiness and institutional reputation, while potentially generating "contagion risk" capable of undermining the stability of the entire financial market. Hence, effective liquidity risk management policies become essential, including maintaining adequate liquidity reserves, diversifying funding sources, and establishing proactive financial contingency plans (Qaidi & Khaznaji, 2016, pp. 83-84).

Turning to external financing decisions, the concept of financial leverage emerges as a strategic mechanism based on a straightforward principle: when a firm utilizes debt financing to support its activities, the returns generated from investing these borrowed funds inevitably influence shareholders' returns. If the economic return on assets exceeds the cost of financing represented by interest expenses, a "positive leverage effect" is achieved, benefiting shareholders. Conversely, when asset profitability falls below financing costs, a "negative leverage effect" arises, resulting in a decline in returns on equity (Sassi & Qurayshi, 2006).

Accordingly, financial leverage is closely linked to the company's ability to employ externally sourced funds with fixed costs, whether in the form of long-term debt or preferred shares, in a manner that maximizes returns. The leverage effect is assessed by comparing the economic return on assets with borrowing costs. When debt costs remain below economic profitability, external financing enhances financial performance. However, if borrowing costs exceed economic returns, leverage transforms into a

factor exerting downward pressure on the company's financial performance (Belaour, 2016, pp. 180-182).

Financial derivatives also constitute an effective strategic instrument within the broader framework of risk management, as they contribute to reducing fluctuations in cash flows, which are among the principal drivers of increased financial costs associated with financial distress and bankruptcy situations. The significance of these costs lies in their direct deduction from realized profits, thereby eroding the firm's financial performance. Consequently, the role of financial derivatives extends beyond merely mitigating bankruptcy risk; they also enhance the net cash flows available to shareholders by reducing costs arising from financial constraints. This, in turn, improves profitability and ultimately contributes positively to maximizing the company's market value (Cristoffersene, 2003, pp. 2-3).

3. Measuring the Impact of Financial Risks on Financial Performance in Saidal Company

Examining the impact of financial risks on corporate financial performance has become increasingly important in light of the current competitive challenges facing Algerian economic enterprises. Within this context, the Saidal Group, the company under investigation, represents a leading model in the national industrial sector. Effective financial risk management plays a pivotal role in strengthening financial sustainability and enhancing corporate performance efficiency.

This empirical study seeks to test the hypothesis concerning the effect of financial risk indicators, namely the debt ratio, financial autonomy ratio, and current liquidity ratio, on financial profitability measured by Return on Equity (ROE), while controlling for firm size as a control variable. To achieve this objective, the Vector Autoregression (VAR) model was employed as a modern econometric approach that enables a comprehensive understanding of dynamic interactions and the magnitude of the effects exerted by these financial risks on the company's financial performance indicators over the period spanning 2000 to 2024.

3.1 Study Variables and Data Sources

To assess the impact of financial risks on financial profitability within the Saidal Group, the study adopted an econometric approach based on annual time series data. The study sample comprised 25 observations covering the period from 2000 to 2024. The data were obtained from the annual financial statements and reports published by the Saidal Group, in addition to documented information provided by the Algerian Securities Commission (COSOB), ensuring analytical accuracy and consistency between the empirical findings and the company's actual financial position.

The following table presents the variables incorporated into the econometric model, together with their corresponding symbols and data sources.

Table (01): Definition of the Variables Used in the Study

Variables	Variable Definition	Measurement Method	Symbol	Unit
Dependent Variable	Financial profitability (Return on Equity)	Net Profit / Total Shareholders' Equity	ROE	Percentage (%)
Independent Variables	Financial leverage risk (Debt Ratio)	Total Debt / Total Assets	FL	Percentage (%)
	Financing risk represented by the Financial Autonomy Ratio	Total Equity / Total Liabilities	FR	Percentage (%)
	Liquidity risk (Current Ratio)	Total Current Assets / Total Current Liabilities	LR	Percentage (%)
Control Variables	Firm Size	Natural logarithm of Total Assets	Size	/
Sample	Saidal Company			

Source: Prepared by the researcher based on data obtained from the official website of the Saidal Group and the official website of the Commission for the Organization and Supervision of Stock Exchange Operations (COSOB).

Based on the results presented in Table (01), an econometric model was developed to estimate the impact of financial risks on the financial

profitability of the Saidal Group over the period 2000-2024. The model aims to capture and analyze the responsiveness of financial profitability, measured by Return on Equity (ROE), to changes in financial risk indicators represented by the leverage ratio, financial autonomy ratio, and current liquidity ratio, while controlling for firm size (Size) as a control variable. The model seeks to assess the relative contribution of each independent variable in explaining variations in financial profitability and to determine the nature of the relationship, whether positive or negative, between financial risks and the company's financial performance, according to the following functional specification:

$$ROE_t = f(FL_t, FR_t, LR_t, Size_t)$$

Accordingly, these variables are represented in the following econometric model:

$$ROE_t = \beta_0 + \beta_1 FL_t + \beta_2 FR_t + \beta_3 LR_t + \beta_4 Size_t + \varepsilon_t$$

Where:

- β_0: the intercept parameter of the model;
- $\beta_1, \beta_2, \dots, \beta_4$: response coefficients measuring the effect of the independent and control variables on the dependent variable, where $i = 1,2, \dots, n$.

3.2 Stationarity Analysis

The analysis of the stationarity characteristics of time series data represents a crucial methodological step prior to econometric estimation, aimed at mitigating the risk of spurious regression and ensuring the integrity and dependability of statistical findings. This process seeks to assess the existence of a unit root within the variables under investigation. To facilitate this, the Augmented Dickey-Fuller (ADF) test was utilized as the principal statistical instrument to ascertain the stationarity of the series.

The ADF test functions by assessing two contradictory hypotheses: the null hypothesis asserts the existence of a unit root, indicating that the time series is non-stationary, whereas the alternative hypothesis argues that the time series is stable and stationary. The following table illustrates the results of these tests, revealing the characteristics of the variables at their

initial levels and first differences in order to determine the integration order for each variable.

- H_0:The series is non-stationary (presence of a unit root)
- H_1:The series is stationary (absence of a unit root)

Table (02): Summary of the Augmented Dickey-Fuller (ADF) Test for Examining Variable Stationarity

Variable	At Level			At First Difference			Decision
	Without Intercept and Trend	Intercept	Intercept and Trend	Without Intercept and Trend	Intercept	Intercept and Trend	
	t-statistic						
	Prob						
ROE	-0.93 0.30	-1.37 0.57	-3.46 0.06	-9.08 0.00	-8.86 0.00	-6.72 0.00	Stationary at the second difference
FL	-0.16 0.61	-2.72 0.08	-2.59 0.28	-7.42 0.00	-7.25 0.00	-7.32 0.00	Stationary at the first difference
FR	-1.20 0.20	-1.70 0.41	-13.40 0.00	-22.68 0.00	-22.49 0.00	-21.92 0.00	Stationary at the first difference

LR	-0.25 0.58	-3.12 0.03	-3.54 0.05	-6.79 0.00	-6.73 0.00	-6.68 0.00	Stationary at the first difference
Size	2.83 0.99	-1.20 0.65	-1.12 0.90	-3.13 0.00	-3.97 0.00	-4.11 0.01	Stationary at the first difference

Source: Prepared by the researcher based on the outputs generated from EViews 12.

The results presented in the table above indicate that the time series of the study variables, based on the Augmented Dickey-Fuller (ADF) test, are non-stationary at their levels and therefore contain a unit root, as the significance levels exceed 0.05. However, all variables became stationary at the first difference, given that the significance levels fell below 0.05. Since all variables exhibit the same order of integration, the possibility of the existence of cointegration can be assumed.

3.3 Cointegration Test:

Before performing the cointegration analysis of the study variables, it was imperative to ascertain the most suitable lag length for the model, employing a specific array of selection criteria tailored for this objective. The ideal lag duration is established by identifying the lowest values of these criteria. The subsequent table illustrates the findings related to the determination of the optimal lag order for the VAR model:

Table (03): Results of Determining the Optimal Lag Order for the VAR Model

VAR Lag Order Selection Criteria
Endogenous variables: ROE FL FR LR SIZE
Exogenous variables: C
Date: 05/01/26 Time: 16:13
Sample: 2000 2024
Included observations: 23

Lag	LogL	LR	FPE	AIC	SC	HQ
0	43.67037	NA	2.38e-08	-3.362641	-3.115794	-3.300559
1	115.7548	106.5595*	4.23e-10*	-7.456936*	-5.975856*	-7.084449*
2	139.4518	24.72735	6.80e-10	-7.343635	-4.628323	-6.660742

Source: Prepared by the researcher based on the outputs generated from EViews 12.

As shown in the table above, the appropriate lag order for estimating the VAR model, which yields the minimum values across the selected criteria, is the first lag. This indicates that the optimal lag length for the Saidal Group model is one period (Lag = 1). Accordingly, the cointegration test will be performed using the VAR(1) model to examine the existence of a long-run relationship among the study variables, relying on both the Trace Test and the Maximum Eigenvalue Test, as presented in the following table:

Table (04): Trace Test Results

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.656097	52.41156	69.81889	0.5312
At most 1	0.425399	27.86146	47.85613	0.8197
At most 2	0.338987	15.11764	29.79707	0.7724
At most 3	0.212240	5.596048	15.49471	0.7427
At most 4	0.004733	0.109112	3.841465	0.7411

Source: Prepared by the researcher based on outputs generated using EViews 12.

The above table indicates that the calculated value of the Trace Statistic is lower than its critical value at the 5% significance level for (r = 0, 1, 2, 3, 4). Accordingly, the null hypothesis, which states that no cointegration relationship exists at these ranks, is accepted. To further verify

the results previously obtained through the Trace Test, the findings derived from the Maximum Eigenvalue Test are presented as follows:

Table (05): Results of the Maximum Eigenvalue Test

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.656097	24.55010	33.87687	0.4161
At most 1	0.425399	12.74381	27.58434	0.8986
At most 2	0.338987	9.521597	21.13162	0.7883
At most 3	0.212240	5.486936	14.26460	0.6795
At most 4	0.004733	0.109112	3.841465	0.7411

Source: Prepared by the researcher based on outputs generated using EViews 12.

The results of the Maximum Eigenvalue Test presented in the table above show that the calculated value of the statistic is lower than the corresponding critical value at the 5% significance level for (r = 0, 1, 2, 3, 4). Therefore, the null hypothesis assuming the absence of cointegration relationships at these ranks is accepted. This indicates that the Maximum Eigenvalue Test produced results consistent with those previously obtained using the Trace Test, confirming the absence of any discrepancy between the two tests.

3.4 Estimation of the VAR(1) Model:

In this section, Equation (1) derived from the estimation results of the VAR(1) model using the Ordinary Least Squares (OLS) method (Appendix 1) will be employed. This equation illustrates the relationship of the ROE variable as a function of its own lagged values and the variables (FL, FR, LR, Size) with a one-period lag structure, and can be expressed as follows:

$$ROE = 0.477490 \times ROE_{(-1)} + 0.255755 \times FL_{(-1)} + 0.088611 \times FR_{(-1)} - 0.031068 \times LR_{(-1)} + 0.014945 \times SIZE_{(-1)} - 0.418861$$

Based on Equation (1) and Appendix (1), the following findings can be derived:

- The coefficient of determination reached $R^2 = 0.4326$, indicating that 43.26% of the variations in Return on Equity (ROE) are explained by its lagged values and the lagged values of the

independent variables included in the model. The remaining 56.74% is attributable to other factors not incorporated into the model.

- The calculated Fisher statistic (F_{cal}) exceeds its tabulated value (F_{tab}), indicating that the model is statistically sig as a whole.
- A positive but statistically insignificant relationship was identified between the lagged value of Return on Equity and its current value, as the coefficient of the lagged variable ROE(-1) exhibited a positive sign, while the probability value exceeded the 5% significance level ($P > 0.05$). This result may reflect a degree of persistence in the company's financial performance, whereby profitability tends to remain relatively stable over time. However, the statistical insignificance of the lagged variable suggests that current profitability is not necessarily dependent on its historical trajectory. Instead, the company appears to be directly influenced by external shocks, fluctuations in health policies, and changes in raw material costs, confirming that financial performance is shaped more by contemporaneous interactions with the business environment than by previous performance patterns.
- A positive but statistically insignificant relationship was observed between the lagged value of the debt ratio and the current value of ROE, as the coefficient of the lagged variable FL(-1) was positive and the probability value exceeded the 5% threshold ($P > 0.05$). The absence of a significant effect of the debt ratio indicates that the company's financial leverage did not effectively translate into improved financial profitability. This implies that the borrowing policies adopted during the study period did not exert a substantial influence on enhancing shareholder returns.
- A positive but statistically insignificant relationship was also found between the lagged value of the financial autonomy ratio and the current value of ROE. The coefficient of the lagged variable FR(-1) appeared positive, while the probability value remained above the 5% significance level ($P > 0.05$). This finding suggests that the financing structure, whether based on internal financing or external

sources, does not constitute a primary determinant of the company's financial performance. Consequently, changes in the financial autonomy ratio do not explain variations in profitability, indicating that financing decisions are not the principal drivers of the company's earnings performance.

- A statistically sig inverse relationship was identified between the lagged value of the current liquidity ratio and the current value of ROE. The coefficient of the lagged variable LR(-1) was negative and statistically significant, as the probability value was below the 5% significance level ($P < 0.05$). The results therefore reveal a significant negative association between liquidity and financial profitability, which is consistent with the opportunity cost hypothesis. This can be attributed to the company's retention of high liquidity levels without reallocating them toward productive assets, thereby generating an implicit cost that adversely affects the efficiency of Return on Equity (ROE). This finding confirms the existence of a persistent trade-off between maintaining liquidity and maximizing profitability.
- A positive and statistically sig relationship was found between the lagged value of firm size and the current value of ROE. The coefficient of the lagged variable Size(-1) was positive, while the probability value remained below the 5% significance level ($P < 0.05$). This result supports the existence of economies of scale, whereby the expansion of asset size enhances the group's bargaining power with suppliers, leading to reductions in average unit costs. Accordingly, the positive and significant effect of this variable on Return on Equity (ROE) provides empirical evidence of the effectiveness of the growth strategies implemented and the company's ability to transform structural expansion into tangible profitability that enhances shareholder value.

Overall, the model demonstrates that operational factors, represented by firm size, and investment policies, reflected in liquidity management, exert a decisive influence on corporate performance. In contrast, the

financing structure, namely debt and financial autonomy, plays a secondary or non-determinant role in explaining profitability levels. This finding may therefore constitute strong evidence that the Saidal Group achieves growth and performance primarily through operational efficiency and expansion strategies rather than reliance on financial engineering and debt financing.

3.5 Diagnostic Tests for the VAR(1) Model

Following the estimation of the VAR(1) model, a series of diagnostic tests was conducted to assess its validity and ensure the robustness of the empirical results, as presented below:

3.5.1 Normality Test

To examine whether the residuals follow a normal distribution, the Jarque-Bera test was employed. The results indicate that the probability value exceeds the 5% significance level, leading to the acceptance of the null hypothesis, which states that the residuals are normally distributed. This confirms the normality assumption of the model residuals (see Appendix 2).

3.5.2 Autocorrelation Test

Residual autocorrelation was examined based on the Fisher probability value, which was found to be greater than the 5% significance threshold. Consequently, the null hypothesis was accepted, indicating the absence of serial correlation among the residuals and confirming that the model does not suffer from autocorrelation problems (see Appendix 3).

3.5.3 Homoscedasticity Test

Regarding variance stability, the Fisher probability value exceeded the 5% significance level, leading to the acceptance of the null hypothesis asserting homoscedasticity of the residuals. Therefore, the residual variance remains constant throughout the estimation period, confirming the absence of heteroscedasticity issues within the model (see Appendix 4).

3.5.4 Structural Stability Test

The structural stability of the VAR(1) model was assessed using the Inverse Roots of the Characteristic Polynomial test. According to this criterion, the model is considered structurally stable when all roots have moduli less than one and lie within the unit circle. The results confirm that

the VAR(1) model satisfies this condition, as all roots fall inside the unit circle, thereby indicating structural stability of the estimated model (see Appendix 5).

4. CONCLUSION:

This study sought to examine the impact of financial risks on the financial performance of the Saidal Group over the period 2000-2024, with the aim of addressing the central research question: *To what extent do financial risks influence the financial performance of the Saidal Group during the period 2000-2024?* The methodological framework adopted in this study was based on the integration of both theoretical and empirical approaches. Relevant literature was critically examined, and the dynamic relationship between financial risk variables and financial performance was analyzed through the application of econometric models appropriate for the time-series nature of the company's financial data. Based on this methodological approach, the study yielded several key findings, the most significant of which are summarized as follows:

- The estimated model demonstrated overall statistical significance. In addition, the model explained 43.26% of the variations observed in return on equity (ROE) through its lagged values and the lagged values of the independent variables included in the model, while the remaining 56.74% can be attributed to other factors not incorporated into the analysis.
- A positive but statistically insignificant relationship was identified between both the debt ratio and the financial independence ratio and return on equity.
- A statistically sig inverse relationship was found between the general liquidity ratio and return on equity.
- A statistically sig positive relationship was observed between firm size and return on equity.

Study Recommendations:

- Continue expansion strategies that promote economies of scale, while emphasizing cost optimization to maximize the positive impact of the Group's size on return on equity.
- Strengthen liquidity management mechanisms to minimize opportunity costs by reallocating excess cash resources toward productive investments rather than maintaining idle liquidity balances.
- Reassess borrowing policies and prioritize financing structures that directly support strategic operational objectives.
- Develop proactive analytical systems to monitor external shocks and fluctuations in raw material costs, given the company's high sensitivity to short-term and situational variables.
- Enhance internal control systems to ensure the efficient allocation of resources toward the most profitable activities, thereby supporting sustainable financial performance and maximizing shareholder value.

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