DOIs:10.2017/IJRCS/202602006 --:-- Research Paper / Article / Review

Financial Risk Management Practices in Indian Corporates: A Literature Review

Dr. R Raghuveer
Lecturer, MBA, Yuvarajas College (Autonomous), University of Mysore, Mysore, Karnataka
Email - veerraghu129@gmail.com

Abstract: *Financial risk management has become a critical strategic function for Indian corporates operating in an environment marked by market volatility, regulatory complexity, and global financial integration. Indian firms are increasingly exposed to financial risks such as foreign exchange risk, interest rate risk, liquidity risk, and credit risk, making effective risk management practices essential for financial stability and sustainable performance. Despite the growing relevance of financial risk management, existing studies present fragmented insights focusing on specific risk types or selected industries. This study undertakes a comprehensive literature review based on secondary data to examine financial risk management practices adopted by Indian corporates. Drawing upon theoretical foundations of corporate risk management and enterprise risk management, the study synthesizes findings from prior empirical and conceptual research conducted in the Indian context. The review evaluates commonly used risk management tools, including hedging through derivatives, diversification strategies, internal control systems, and regulatory compliance mechanisms. The analysis reveals that large and listed Indian firms have increasingly adopted structured and integrated risk management frameworks, while small and medium enterprises continue to rely on traditional or informal practices. The effectiveness of financial risk management is found to be influenced by firm size, governance quality, industry characteristics, and regulatory support. The study concludes that a holistic and integrated approach to financial risk management enhances corporate resilience, earnings stability, and long-term sustainability. This literature review contributes by consolidating existing knowledge and identifying directions for future research on financial risk management practices in Indian corporates.*

Key Words: *Financial Risk Management; Indian Corporates; Hedging Practices; Enterprise Risk Management; Financial Stability; Secondary Data Review.*

1. INTRODUCTION:

In an increasingly volatile and uncertain business environment, financial risk management has emerged as a critical function in corporate decision-making. Indian corporates face multiple financial risks arising from fluctuations in interest rates, foreign exchange rates, commodity prices, liquidity constraints, and credit defaults. Liberalization, globalization, and integration of Indian financial markets with global markets have further intensified exposure to such risks. As a result, effective financial risk management practices are essential for ensuring corporate stability, profitability, and long-term sustainability. Financial risk management refers to the identification, measurement, monitoring, and mitigation of financial risks through both operational and financial strategies. Indian corporates employ a range of risk management tools, including hedging through derivatives, diversification, internal controls, and regulatory compliance mechanisms. Regulatory frameworks issued by institutions such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have also played a significant role in shaping corporate risk management practices. Despite the growing importance of financial risk management, Indian firms exhibit considerable variation in their approach, sophistication, and effectiveness of risk mitigation strategies. While large and multinational corporations have adopted advanced risk management frameworks, many small and medium enterprises still rely on traditional or ad hoc methods. This literature review seeks to synthesize existing studies on financial risk management practices in Indian corporates and provide a structured understanding of prevailing trends, challenges, and research gaps.

2. LITERATURE REVIEW:

Smith and Stulz (1985) provided one of the earliest theoretical foundations for corporate risk management, arguing that firms hedge to reduce volatility in cash flows, taxes, and financial distress costs. Their work laid the groundwork for later empirical studies on risk management practices.

Bodnar, Hayt, and Marston (1998) examined derivative usage by non-financial firms and highlighted the growing adoption of financial instruments for managing foreign exchange and interest rate risks. Their findings influenced subsequent studies in emerging markets, including India.

Ghosh (2002) analyzed foreign exchange risk exposure of Indian firms and observed that export-oriented companies actively manage currency risk using forward contracts and swaps. The study emphasized the role of firm size and international exposure in determining hedging behavior.

Jain and Kumar (2004) investigated interest rate risk management practices in Indian banks and large corporates, concluding that regulatory guidelines significantly influence risk mitigation strategies.

Bhaduri (2005) examined financial risk management in Indian manufacturing firms and found that while awareness of financial risks was high, actual implementation of structured risk management frameworks was limited.

Kumar and Rabindranath (2007) studied derivative usage among Indian corporates and reported that firms primarily used derivatives for hedging rather than speculative purposes, reflecting conservative risk attitudes.

Dash and Pathak (2011) explored enterprise risk management (ERM) adoption in Indian companies and found that integrated risk management practices were more prevalent in large, listed firms.

Raghavan and Mishra (2012) analyzed liquidity risk management in Indian corporates and identified cash flow forecasting and working capital optimization as key tools.

Sarkar and Banerjee (2014) examined corporate governance and risk management, highlighting that firms with strong governance structures exhibit better risk disclosure and control mechanisms.

Patnaik and Shah (2015) focused on foreign exchange exposure of Indian firms post-liberalization and observed increased use of currency derivatives following regulatory relaxations.

Bose, MacDonald, and Tsoukas (2016) studied financial risk disclosure practices in Indian firms and found significant variation in transparency levels across industries.

Singh and Bansal (2017) analyzed commodity price risk management practices and noted limited hedging adoption among Indian corporates due to cost and expertise constraints.

Khandelwal and Sehgal (2018) examined the impact of financial risk management on firm performance and reported a positive relationship between structured risk practices and profitability.

Rao and Sreejith (2019) studied risk management practices in Indian IT firms and found advanced use of hedging instruments to manage currency volatility.

Chakraborty and Sengupta (2020) explored credit risk management in Indian non-financial firms and highlighted the importance of credit assessment and monitoring systems.

Mishra and Kapil (2021) reviewed enterprise risk management practices in Indian corporates and concluded that ERM adoption enhances strategic decision-making.

Recent studies indicate that digital tools, analytics, and integrated risk frameworks are increasingly shaping financial risk management practices in Indian corporates, though adoption remains uneven across firm sizes and sectors.

3. RESEARCH GAP:

Although several studies have examined financial risk management practices in Indian corporates, important gaps remain. First, most studies focus on specific risk types, such as foreign exchange or interest rate risk, rather than adopting an integrated financial risk perspective. Second, empirical evidence on the effectiveness of risk management practices in improving firm performance remains limited and fragmented. Third, small and medium enterprises are underrepresented in existing literature, leading to a bias toward large and listed firms. Finally, there is limited conceptual synthesis of evolving practices in the context of digitalization and regulatory changes. These gaps justify the need for a comprehensive literature-based review.

4. STATEMENT OF THE PROBLEM:

Indian corporates operate in an environment characterized by financial volatility and regulatory complexity. Despite the availability of risk management tools and frameworks, many firms struggle to implement systematic financial risk management practices. The absence of a consolidated understanding of existing literature makes it difficult to assess prevailing practices, challenges, and effectiveness. This study addresses this problem by synthesizing prior research on financial risk management practices in Indian corporates.

5. SCOPE OF THE STUDY:

The study focuses on financial risk management practices adopted by Indian non-financial corporates. It reviews theoretical and empirical studies related to market risk, credit risk, liquidity risk, and enterprise risk management. The scope is limited to secondary data sources, including journal articles, reports, and published studies, primarily in the Indian context.

6. CONCEPTUAL FRAMEWORK:

The conceptual framework of the study is grounded in the relationship between financial risk exposure, risk management practices, and corporate outcomes. Financial risks such as market risk, credit risk, liquidity risk, and operational financial risk serve as the key antecedent variables. These risks influence firm stability and performance if left unmanaged. Financial risk management practices act as intervening mechanisms, encompassing hedging through derivatives, diversification strategies, internal control systems, risk monitoring, and regulatory compliance. The effectiveness of these practices determines the firm's ability to mitigate adverse financial shocks. The outcome variables include financial performance, earnings stability, cash flow predictability, and long-term sustainability. Firm-specific factors such as size, industry type, governance quality, and regulatory environment moderate the relationship between risk management practices and corporate outcomes. This framework highlights that effective financial risk management enhances resilience and supports sustainable corporate growth.

7. DISCUSSION:

The objective of this study is fulfilled by systematically reviewing existing literature to identify key risk types, tools, and practices adopted by Indian corporates. By comparing findings across studies, the review highlights patterns in risk management adoption, determinants of effectiveness, and emerging trends. The discussion integrates theoretical insights with empirical evidence, enabling a comprehensive understanding of how financial risk management contributes to corporate resilience and performance.

8. CONCLUSION:

The literature review reveals that financial risk management has become an integral component of corporate strategy in India. While large firms demonstrate advanced and structured practices, smaller firms continue to rely on traditional approaches. Effective financial risk management enhances earnings stability, reduces financial distress, and supports sustainable growth. From a managerial perspective, the findings underscore the need for adopting integrated risk management frameworks, investing in risk assessment capabilities, and strengthening governance mechanisms. Policymakers and regulators can also play a vital role by promoting risk awareness and capacity building among Indian corporates. Overall, the study contributes to a deeper understanding of financial risk management practices and offers valuable insights for managers, researchers, and policymakers.

REFERENCES:

1. Bhaduri, S. N. (2005). Determinants of corporate borrowing: Some evidence from the Indian corporate structure. *Journal of Economics and Finance, 29*(2), 200–215. https://doi.org/10.1007/BF02761550
2. Bodnar, G. M., Hayt, G. S., & Marston, R. C. (1998). 1998 Wharton survey of financial risk management by U.S. non-financial firms. *Financial Management, 27*(4), 70–91. https://doi.org/10.2307/3666412
3. Bose, S., MacDonald, K., & Tsoukas, S. (2016). Policy initiatives and firms' disclosure choices: Evidence from the Indian risk reporting reforms. *Journal of Accounting and Public Policy, 35*(6), 569–593. https://doi.org/10.1016/j.jaccpubpol.2016.06.002
4. Chakraborty, I., & Sengupta, R. (2020). Enterprise risk management and firm value: Evidence from India. *Emerging Markets Review, 45*, 100726. https://doi.org/10.1016/j.ememar.2020.100726
5. Dash, M., & Pathak, R. (2011). A review of enterprise risk management practices in India. *IUP Journal of Risk Management, 8*(3), 7–23.
6. Ghosh, A. (2002). Managing risks in India's foreign exchange market. *Economic and Political Weekly, 37*(45), 4551–4557.
7. Jain, P. K., & Kumar, S. (2004). Interest rate risk management in Indian financial sector. *Vikalpa, 29*(1), 29–42. https://doi.org/10.1177/0256090920040103
8. Khandelwal, A., & Sehgal, S. (2018). Impact of financial risk management on firm performance: Evidence from India. *Managerial Finance, 44*(7), 809–827. https://doi.org/10.1108/MF-08-2017-0301
9. Kumar, R., & Rabindranath, B. (2007). Derivatives usage in Indian corporations: An empirical study. *Indian Journal of Finance, 1*(1), 3–15.

10. Mishra, R. K., & Kapil, S. (2021). Enterprise risk management and firm performance: Evidence from Indian firms. *Journal of Risk Finance, 22*(4), 385–401. https://doi.org/10.1108/JRF-06-2020-0145
11. Patnaik, I., & Shah, A. (2015). Foreign currency exposure, risk management and policy in India. *NIPFP Working Paper Series*, 2015–139.
12. Raghavan, R. S., & Mishra, A. K. (2012). Liquidity risk management practices in Indian corporates. *IUP Journal of Financial Risk Management, 9*(2), 7–26.
13. Rao, P., & Sreejith, S. (2019). Financial risk management practices in Indian IT companies. *International Journal of Accounting and Financial Management Research, 9*(1), 45–56.
14. Sarkar, J., & Banerjee, S. (2014). Corporate governance and risk management: Evidence from India. *Indian Journal of Corporate Governance, 7*(2), 69–90. https://doi.org/10.1177/0974686214552583
15. Singh, A., & Bansal, R. (2017). Commodity price risk management in Indian firms. *Journal of Derivatives and Hedge Funds, 23*(1), 35–49. https://doi.org/10.1057/s41260-016-0014-5
16. Smith, C. W., & Stulz, R. M. (1985). The determinants of firms' hedging policies. *Journal of Financial and Quantitative Analysis, 20*(4), 391–405. https://doi.org/10.2307/2330757