

Analysis of the Impact of Risk Factors and Financing Methods on Company Performance (Case Study: Transportation Industry)

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Abstract

Given that the cost of internal financing is lower than external financing and generally provides easier access to funds and resources, it is often the preferred choice for companies. However, internal financing may not always be feasible or effective, especially depending on the business cycle and the company's operational scale. This study, conducted in 2023, aims to examine the impact of financing risk factors on the performance of companies in the transportation industry. The research is applied in nature, based on its objectives, and uses a descriptive-survey method for data collection. A field study was conducted by designing and distributing a questionnaire among 386 individuals, including CEOs, vice presidents, executives, and key personnel in the transportation industry, all of whom were well-versed in the financing process. The collected data were analyzed using structural equation modeling techniques with the Smart PLS software. The analysis results showed that, in addition to the validity of the relationships between the core variables and the confirmation of all elements of the model, the derived model demonstrated strong validity, reliability, and overall fit.

Keywords: Financing risk, Financing methods, financial performance, Structural equation modeling, Transportation industry.

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1-Introduction

Companies face two primary sources of financing: internal and external. Internal financing typically includes cash flows generated from operational activities, asset sales, and retained earnings. In contrast, external financing is secured through financial markets by issuing bonds, new shares, or obtaining loans from financial institutions. Managers must make critical decisions on how to acquire necessary funds and allocate available resources efficiently. These financial resources are essential for distributing dividends, executing profitable investments, settling debts, and increasing working capital (Frank & Valiguo, 2003).

In any economic activity, inherent risks may impact a company's financing activities, especially when relying on external sources of financing such as debt. Companies using external financing must meet repayment obligations, including interest and principal, according to agreements with creditors. Several risks are associated with this process:

Collateral Risk: External financing often requires companies to provide collateral or guarantees. If the collateral is insufficient, cross-guarantees may be needed, which can lead to a chain reaction of financial distress if one of the linked businesses encounters problems, increasing the risk of debt default (Qiu et al., 2021, Nozari, 2024).

Financial Risk: Financing through debt raises a company's debt-to-asset ratio, potentially leading to financial distress if expected returns on investments fail to materialize or if loan interest rates surpass the company's profit margins. This situation can lead to reduced profitability, increased risk of bankruptcy, and loss of managerial control if external equity is involved (Frank & Valiguo, 2003).

While internal financing involves fewer risks and costs, over-reliance on internal resources may negatively impact a company's operations, particularly when profitability is low and internal funds are insufficient to meet growing financial needs (Qiu et al., 2021). Furthermore, fluctuating exchange rates can disrupt financial stability, causing speculative activities that increase uncertainty in investment decisions.

The transportation industry, known for its capital-intensive nature, faces substantial financing challenges. The industry requires significant investments in infrastructure, fleet expansion, and operational efficiency to remain competitive. Many companies in the transportation sector struggle with insufficient access to financing, which hinders their growth and sustainability. While large global transportation companies are able to secure funding through various sources, companies in developing economies, particularly in our country, face considerable difficulties in acquiring adequate financial resources.

Given the importance of financing in the transportation industry, understanding the risks associated with both internal and external financing is crucial for informed decision-making. Companies must navigate these risks to maintain financial stability and achieve long-term growth.

Although there is extensive research on corporate financing, particularly in developed economies, there is limited research on financing risks in the transportation industry, especially in developing countries. Existing studies have focused on general financing strategies and risk management, but few have specifically addressed the unique challenges of financing in the transportation sector. This study aims to fill this gap by analyzing both internal and external financing risks in the transportation industry and proposing a model for measuring these risks.

The main objective of this research is to design and validate a model for estimating the various risk factors associated with financing in the transportation industry. More specifically, the research aims to:

Investigate whether internal and external financing impact the financial performance of companies in the transportation industry.

Identify and analyze the different risk factors related to financing in this industry.

Examine whether external financing poses greater risks than internal financing.

Propose a model or framework for estimating financing risks in the transportation sector.

Based on the objectives outlined, the following research questions guide this study:

Does financing from internal and external sources impact the financial performance of companies in the transportation industry?

Is it possible to identify and analyze the various risk factors associated with financing in the transportation sector?

Are the risks associated with external financing higher than those of internal financing in the transportation industry?

Can a model be developed to estimate and analyze financing risks in the transportation sector?

In conclusion, the transportation industry faces numerous challenges in securing sufficient financial resources, particularly due to the risks associated with external financing. By developing a comprehensive model to estimate these risks, this research aims to provide transportation companies with a tool for more effective risk management and decision-making in the context of financing. The findings of this study will contribute to the broader literature on corporate financing while addressing the specific needs of the transportation sector.

2-Literature Review

Financing Risk

Financing is both an art and a science of managing cash flows, aimed at supporting investment, profitability, risk reduction, and fulfilling a company's economic and social needs. Profitability is

crucial for the continuity of operations and serves as a significant source for funding future activities (Smith & Tan, 2022). Securing appropriate financial resources remains a central concern for businesses globally, as every activity depends on these resources, which act as the lifeblood of both small and large organizations (Garcia & Yao, 2020, Nozari et al., 2012). Indeed, profitability, the primary objective of economic activity, is unattainable without adequate financial resources (Carter & Jones, 2019).

The optimal financing tools differ based on a company's internal conditions and the sources of financing available. Choosing the appropriate method requires consideration of various factors, which can be grouped into three main categories: internal company factors, financing source criteria, and macroeconomic-political factors (Loo & Fisher, 2021, Gharachorloo et al., 2021). While all three categories are essential, this section will focus on the criteria and factors related to financing sources.

Criteria for Selecting Financing Sources:

- Risk
- Return
- Amount of Financing
- Investment Horizon

a) Risk: Financing sources must be compensated for the risks they undertake. The higher the risk a financing source assumes, the higher the required return, whether in the form of profit or interest (Thomas & Lee, 2023). Therefore, a company or project seeking financing must clearly define the purpose of the funds and choose the financing source according to the risk associated with their use (Smith & Tan, 2022).

b) Expected Return: Different financing sources demand varying returns or interest rates from the company or project. The firm must consider the return it can afford and select the financing source based on these expected returns (Williams & Zhang, 2021). The rate of expected return is generally determined by the level of risk the source is willing to accept; typically, the greater the risk, the higher the required return (Loo & Fisher, 2021).

c) Amount of Financing: Each financing source can offer a specific amount of capital to the firm or project. Financial managers need to assess the total capital required and select a financing source that aligns with both the company's needs and the capacity of the source (Garcia & Yao, 2020).

d) Investment Horizon: Financing sources also differ based on their investment horizons, which are influenced by their structural features (Williams & Zhang, 2021). Financial managers must ensure that the chosen financing source aligns with the intended duration for which the funds will be used (Thomas & Lee, 2023).

Company Performance

Financial performance is an objective measure of how efficiently an organization utilizes its assets to generate income. It serves as one of the most critical indicators for assessing a company's overall

performance and its ability to meet pre-established goals. Financial ratios are commonly employed to evaluate financial performance, allowing companies and shareholders to compare performance against peers, industry standards, and historical benchmarks (Nakhai et al., 2021). These ratios provide significant insights into the financial statements, helping shareholders to better understand the company's operational effectiveness and financial health (Garcia & Yao, 2020).

Achieving strong financial performance and profitability is vital for organizations as it reflects their ability to sustain operations and create value for stakeholders. Financial performance is arguably the most critical criterion for assessing organizational success, as it reveals both the strengths and weaknesses of a company's financial operations (Smith & Tan, 2022). Numerous studies emphasize financial performance as a core factor in performance management research due to its role in assessing a company's growth and development (Carter & Jones, 2019).

The importance of financial performance is particularly significant to shareholders, who seek to invest in companies demonstrating strong financial results. Understanding the factors that influence financial performance is essential, and Actor-Network Theory (ANT) provides a useful framework for this analysis. ANT explains how networks of both microeconomic and macroeconomic actors can impact a company's financial performance. This sociological theory considers the interactions among various components in a system and highlights how both internal (e.g., management practices) and external factors (e.g., market conditions) shape financial outcomes (Loo & Fisher, 2021). For investors and researchers, recognizing these influencing factors is critical for assessing the overall health of a company, as well as its executive leadership and strategy.

Effective financial performance signals better resource utilization, resulting in enhanced profitability and economic benefits. Analysts often rely on financial ratios to assess the financial status of a company, as these ratios reveal important details about operational results and overall financial conditions. Ratio analysis compares different financial statement items, offering clarity on relationships between key figures (Williams & Zhang, 2021). This method is widely used in assessing companies, particularly in industries such as banking, where financial performance is influenced by factors such as management practices, auditing processes, and the productivity of senior leadership (Thomas & Lee, 2023).

Financial performance is not only a reflection of revenue growth and profitability but also an indicator of how well a company can maintain operational efficiency over time. Continuous evaluation of performance helps managers optimize cash flows, improve efficiency, and make informed decisions about resource allocation. This holistic view of financial performance allows companies to better understand their capacity for long-term success and sustainability (Nakhai et al., 2021).

Research Background and History:

After identifying relevant research, the researcher should start with two important evaluations: exploratory study and background review through literature review. Although these evaluations are similar and intertwined, with some stages occurring simultaneously, the objectives differ.

Therefore, researchers need to address both aspects carefully. Given the importance of research background, this study combines both domestic and international research backgrounds.

Domestic Research Background:

1. **Firoozabadi et al. (2021):** Investigated a mathematical model for financing small and medium-sized manufacturing companies. The study proposed a model for financing through factoring in the supply chain. Factoring is particularly useful for small and medium-sized companies. The research utilized goal programming and solved the model with GAMS and CPLEX software, providing recommendations for financial flows and methods of factoring to enhance liquidity and profitability.
2. **Tehrani et al. (2019):** Examined the impact of non-systematic risk on financing policies of manufacturing companies. The study used fixed effects methods to analyze data, finding significant relationships among market-to-book value ratio, stock return, and financial leverage. The model confirmed positive impacts of these variables on financial leverage.
3. **Farid et al. (2018):** Analyzed the effect of financing type on investment efficiency in companies listed on the Tehran Stock Exchange. The research used a hierarchical model of debt ratio, financial leverage, and retained earnings to measure financing methods. The findings indicated that financing type significantly affects investment efficiency and that higher debt ratios and financial leverage are associated with different investment efficiencies.
4. **Fathi (2016):** Studied the impact of financing methods on company value, concluding that the percentage change in stock prices is less in companies with high debt ratios compared to those with low debt ratios.
5. **Habibi et al. (2016):** Investigated the relationship between financing methods and accounting conservatism using data from Tehran Stock Exchange companies. They found that companies using long-term debt or equity financing reduced conservatism in financial reporting.

International Research Background:

1. **Qiu et al. (2021):** Designed a model to estimate financing risk in the automotive industry for electric and hydrogen-fueled vehicles. They used the Value at Risk (VaR) method and found that external financing carries higher risks than internal financing. They employed game theory and dynamic modeling to compare risks and investment priorities for the two vehicle types.
2. **He et al. (2020):** Explored the impact of managerial overconfidence on internal financing and investment efficiency. The study revealed that while internal financing can create business opportunities, overconfident managers might lead to over-investment, especially in state-owned enterprises.
3. **Jankensgard (2015):** Examined the relationship between voluntary disclosure, external financing, and financial status of Swedish companies from 2007 to 2012. The study found that poor financial status increases the demand for voluntary disclosure to address financing challenges and market evaluation.
4. **Angeli and Mazzo (2015):** Investigated the financing of innovative small and medium-sized enterprises using a multi-factor credit rating model. The study provided a model that

enhances risk classification by integrating various approaches and Monte Carlo simulations. A real case study was included to develop this multi-factor credit risk model.

5. **Khan et al. (2015):** Analyzed the effects of financial resources on the growth of small, medium, and large companies in Pakistan. The research showed that banks positively impact company growth, while informal sources had a negative effect between 2002 and 2007. However, government policies showed positive impacts from 2007 to 2010.

Table (1) of Research Background

Researcher(s) & Year	Title/Focus	Key Findings
Firoozabadi et al. (2021)	Mathematical Model for Financing	Proposed a model using factoring in the supply chain; provided recommendations for liquidity and profitability using GAMS and CPLEX.
Tehrani et al. (2019)	Impact of Non-Systematic Risk on Financing Policies	Found significant relationships among market-to-book value ratio, stock return, and financial leverage.
Farid et al. (2018)	Effect of Financing Type on Investment Efficiency	Determined that financing type significantly affects investment efficiency; higher debt ratios and financial leverage have varying impacts.
Fathi (2016)	Impact of Financing Methods on Company Value	Concluded that companies with high debt ratios have less change in stock prices compared to those with low ratios.
Habibi et al. (2016)	Financing Methods and Accounting Conservatism	Found that long-term debt or equity financing reduces conservatism in financial reporting.
Qiu et al. (2021)	Financing Risk in Automotive Industry	External financing risks were higher than internal; used VaR, game theory, and dynamic modeling for comparison.
He et al. (2020)	Managerial Overconfidence and Financing	Overconfidence may lead to over-investment; internal financing creates opportunities but can result in excessive investment.
Jankensgard (2015)	Voluntary Disclosure and External Financing	Poor financial status increases demand for voluntary disclosure to address financing and market evaluation challenges.
Angeli and Mazzo (2015)	Financing Innovative SMEs	Developed a multi-factor credit rating model using Monte Carlo simulations; included a real case study for model development.
Khan et al. (2015)	Financial Resources and Company Growth	Banks positively impact growth; informal sources had negative effects; government policies showed positive impacts in recent years.

3-Research Methodology

This research is applied in terms of its purpose. It is a type of quantitative research aimed at discovering, describing, explaining, and elucidating the research topic, which utilized qualitative methods to finalize and localize various categories of financing and related risks. In other words, this research is integrative in terms of data types. In terms of presenting a model and determining

the factors influencing the financing of transportation industry companies, it falls under quantitative and applied research. As for examining relationships between variables and testing the model derived from the first stage, it is considered quantitative and applied research, given the potential for utilizing research results after testing the relationships between variables. Paradigmatically, it is constructivist (interpretive) from a qualitative perspective and positivist from a quantitative perspective. The current research is applied in terms of identifying influential factors and descriptive in terms of determining relationships between variables. Additionally, this research is cross-sectional in terms of its time horizon. The methods for data collection in this research are field-based. Data will be collected through interviews and a researcher-developed questionnaire. The statistical population of this research includes CEOs, deputy managers, executive managers, and key personnel in the transportation industry who have comprehensive knowledge of the financing process. The sampling method is based on simple random sampling. The minimum sample size, calculated using the Cochran formula, was 386 individuals. Accordingly, 420 questionnaires were distributed among several transportation industry companies, with 391 questionnaires returned and used for analysis. The results of the demographic status of the sample are shown in Table (2).

Table (2) Demographic Findings

Demographic Characteristic		Frequency	Cumulative Frequency
Gender	Female	77	20.00%
	Male	309	100.00%
Education	Bachelor's and Below	97	25.10%
	Master's	221	82.40%
	Doctorate	68	100.00%
Years of Service	6 to 10 Years	170	44.00%
	11 to 15 Years	162	86.00%
	15 Years and More	54	100.00%
Age	Under 30 Years	48	12.40%
	30 to 40 Years	140	48.70%
	Over 40 Years	198	100.00%
Organizational	CEO	29	7.50%
	Deputy	37	17.10%
	Manager	127	50.00%

Supervisor (Head)	89	73.10%
Other	104	100.00%

4-Data Analysis

At this stage, to evaluate the conceptual model of the research and to confirm the presence or absence of causal relationships among the research variables, as well as to examine the fit of the observed data with the conceptual model, the research model was tested using Structural Equation Modeling (SEM). The results of the model testing are reflected in the diagram.

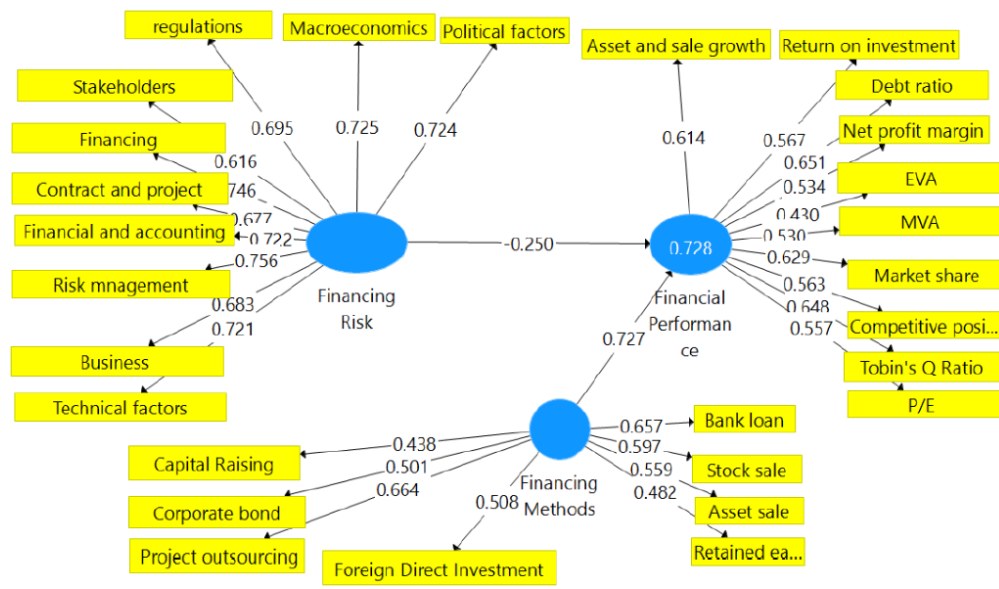


Figure (1) Measurement Model in Standard Mode

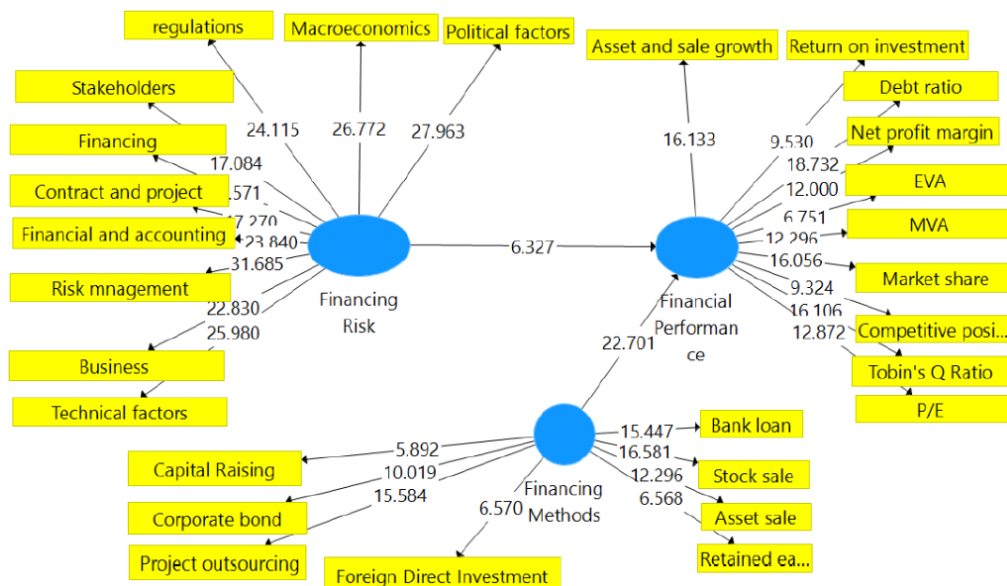


Figure (2) Measurement Model in Significance Mode

To assess reliability, Cronbach's alpha and composite reliability were used. For evaluating validity, convergent validity was applied. To assess model fit, the GOF (Goodness of Fit) index was utilized.

Table (3) Reliability and Validity of External Models

Variable	CR	AVE	MSV	Fornell-Larcker Matrix		
				1	2	3
Financial Risk	0.787	0.552	0.193	0.743		
Financing Methods	0.844	0.644	0.478	0.342	0.803	
Financial Performance	0.918	0.651	0.423	0.331	0.47	0.807

- A Cronbach's alpha value higher than 0.70 indicates acceptable reliability.
- A CR value above 0.70 for each construct signifies adequate internal consistency for the measurement model.
- An AVE value above 0.50 reflects acceptable convergent validity.
- Considering 0.10, 0.25, and 0.36 as weak, moderate, and strong values for GOF (Goodness of Fit), a GOF value of 0.62 indicates a strong model fit.

5-Discussion and Conclusion

Transportation has historically been a volatile and cyclical industry. Recent financial crises have exacerbated this volatility, significantly affecting the revenue, operating cash flows, and asset values of transportation companies. As traditional financing tools, such as bank loans, become more constrained due to new regulatory frameworks, the industry has shifted toward capital markets for external funding. This shift introduces new risks, making risk management a critical function for transportation companies. Companies can manage these risks by refining operations, utilizing derivatives to manage fleet and transportation prices, or adjusting their capital structure. This research aimed to investigate the impact of financial risk factors on the financial performance of transportation companies, employing Structural Equation Modeling (SEM) to examine key relationships.

The results revealed that among the dimensions of financial risk, risk management was the most significant factor, while stakeholder-related risks had the least impact. Regarding financial performance, the accounting approach was the most influential, and the integrative approach had the least significance. Furthermore, the study found that financial risk factors negatively impact financial performance, with an impact coefficient of -0.792, indicating an inverse relationship between financial risk and financial performance in Iranian transportation companies.

No prior studies have specifically developed a financial risk model for transportation companies in Iran, making this research unique. However, some studies are aligned with the findings. For instance, Mohammadi et al. (2023) proposed a model for collective financial risk in fintech companies, identifying factors like liquidity risk and investment dilution, similar to the factors identified in this study. On the other hand, Betsken and Rahimi Dameshki (2018) examined financing mechanisms in the Iranian transportation sector, identifying solutions such as creating a reinsurance role and issuing insurance securities, which partially align with the findings of the present study. Similarly, Asgarnejad Noori and Emkani (2017) emphasized the importance of risk management, finding that effective risk management correlates with improved financial performance, consistent with the current study's results.

Studies such as Pour-Rahmani and Karimi (2010) have also demonstrated that poor risk management increases costs and reduces company performance, supporting the notion that effective risk management is critical to financial success. Other studies, including Gordon et al. (2009) and Heath & Liebenberg (2011), have shown similar results in different industries, where better risk management improves both financial and operational performance.

Risk Assessment and Prevention: Managers should implement appropriate methods to assess default risk in contracts and projects. Conducting thorough feasibility studies and transferring or mitigating risks early on can help prevent financial crises such as bankruptcy.

Specialized Financial Risk Units: It is recommended that transportation companies establish dedicated units or committees to handle financial risk management, which can lead to better financial performance.

Optimizing Capital Structure: Companies should focus on creating an optimal capital structure by aligning their financing policies with risk management strategies.

Human Resource Development: By improving human capital through training and implementing knowledge management systems, companies can enhance their financial performance via effective risk management.

External Investment: Companies should focus on attracting external investment and collaborating with similar firms to leverage investment opportunities.

Financial and Capital Structure Management: Organizing the company's financial and capital structure can help identify the best financing methods that align with company goals and principles.

Future studies could explore the effects of variables such as managerial characteristics, control mechanisms, and management accounting systems on financial performance.

The relationship between financial risk management and modern performance indicators like economic value added, cash value added, and market value added should be examined.

Research could investigate the role of effective risk management in improving both financial and non-financial performance simultaneously.

Conducting similar studies in other industries, particularly core sectors, and comparing results across industries would provide broader insights.

The role of audit committees in risk management and their effect on financial performance, particularly concerning financial ratios, should be studied.

This study faced several limitations. Access to experts in the transportation field was limited, restricting the ability to address some important factors. Additionally, legal barriers prevented some company managers from sharing information due to confidentiality concerns, impacting the depth of the analysis.

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