

Leveraging Financial Structure Analysis for Informed Decision-Making at ALBA Company to Effectively Mitigate Financial Risks

Srishti Agarwal

Rukmini Devi Institute of Advanced Studies (Guru Gobind Singh Indraprastha University, Delhi)

¹Received: 16 November 2023; Accepted: 29 December 2023; Published: 18 January 2024

Abstract

Running a business today means dealing with a lot of financial ups and downs. For a company like ALBA, making the right financial decisions isn't just helpful—it's necessary for survival and growth. This paper looks into how ALBA can reduce its financial risks by better understanding how it uses debt and equity. Instead of just following traditional methods, we've used real studies and financial tools published over the last 10 years (2013–2023) to build a practical approach. The idea is simple: when a company knows its financial position well, it can plan ahead with confidence. This study includes comparisons, easy-to-follow tables, and examples that show exactly how ALBA can make smarter choices about its finances. In the end, it's all about helping the company stay strong, even when things get uncertain.

1. Introduction

No matter how big or small a company is, dealing with financial challenges is part of the game. ALBA Company, like many others, faces decisions every day about how to spend money, how much to borrow, and how to make sure it doesn't run into trouble down the road. That's where understanding its financial structure really matters. When a company knows how much it's depending on loans versus its own funds, it can see the risks more clearly—and that helps in making better long-term choices.

Sometimes companies borrow too much, thinking it'll help them grow faster, only to struggle when things slow down. Others play it too safe and miss out on growth. This paper focuses on finding the right balance. By using insights from recent studies and practical tools, we'll look at how ALBA can improve the way it manages its finances. The goal isn't to throw around complex theories, but to show what actually works in the real world—and how ALBA can apply it to avoid financial stress and move forward with more control and confidence.

Table 1. Key Empirical Findings

Study	Context / Sample	Key Finding
Hasan & Ohee (2024)	120 listed manufacturing firms, Bangladesh (2017–2023)	Debt-to-Equity and market cap drive EPS; ROE influenced by size and assets; ROA varies with size; Tobin's Q linked to multiple ratios
Nam (2024)	644 non-financial Vietnamese firms	Liquidity boosts performance but negatively affects capital structure; liquidity indirectly enhances performance via capital structure
Zhou & Lok (2024)	18,630 firm-years, Chinese A-share listed firms (2012–2021)	Capital structure increases financial distress risk; leverage must be managed

¹ How to cite the article: Agarwal S (January, 2024); Leveraging Financial Structure Analysis for Informed Decision-Making at ALBA Company to Effectively Mitigate Financial Risks; *International Journal of Advances in Engineering Research*, Jan 2024, Vol 27, Issue 1, 10-14

These diverse results highlight that optimal financial structure depends on liquidity, firm size, market context, and risk tolerance—insights that can inform ALBA's strategic choices.

2. Literature Review

2.1 Capital Structure and Financial Performance

Hasan & Ohee (2024) found in the Bangladeshi manufacturing sector (2017–2023) that **debt-to-equity ratio** and **market capitalization** significantly drive EPS; **ROE** is influenced by firm assets and size; and **Tobin's Q** relates to multiple financial ratios.

Nam (2024) studied liquidity, capital structure, and financial performance among Vietnamese listed non-financial firms. Liquidity directly improves performance but negatively affects capital structure, suggesting liquidity indirectly enhances performance via structural adjustments.

2.2 Capital Structure and Financial Distress

Zhou & Lok (2024) examined Chinese A-share firms (2012–2021) and found that higher leverage increases financial distress risk, supporting trade-off theory's caution on over-leverage.

2.3 Risk Management & Capital Structure

Li & Shiu (2024) investigated how risk management affects deviations in capital structure among insurers. They distinguish between direct and indirect deviations: firms with **direct deviations** adjust their structure ~29.2% faster than those with **indirect deviations**.

2.4 Theoretical Foundations

- **Trade-off Theory:** Balances tax benefits of debt against bankruptcy/agency costs; suggests an optimal debt–equity point exists.
- **Pecking Order Theory:** Firms prefer internal finance, then debt, then equity—due to asymmetric information costs (Myers, 1984).

2.5 Comparative Summary

Table 2. Comparative Analysis of Key Literature

Source	Context	Focus	Key Implication	Theory Employed
Hasan & Ohee (2024)	Bangladesh, manufacturing	Capital structure vs performance	D/E drives EPS; size matters for ROE, ROA	Empirical
Nam (2024)	Vietnam, non-financial	Liquidity–structure–performance links	Liquidity helps performance but alters structure	Empirical
Zhou & Lok (2024)	China, A-share firms	Leverage vs financial distress	Higher leverage = higher distress risk	Trade-off
Li & Shiu (2024)	Insurers	Risk management effect on structure adjustment	Direct deviations adjust faster	Risk management theory
Theories	Global	Basis for structure decisions	Guide optimal leverage vs equity mix	Trade-off, pecking-order

This reveals that ALBA's decision-making must consider liquidity, firm size, market environment, risk controls, and theoretical frameworks.

3. Methodology and Analytical Tools

This section outlines the analytical framework and tools ALBA Company can use for financial structure analysis and risk mitigation.

3.1 Financial Ratio Analysis

Core ratios to monitor:

- **Leverage ratios:** Debt-to-Equity (D/E), Debt-to-Total Assets (D/A).
- **Performance ratios:** ROE, ROA, EPS, Tobin's Q.
- **Liquidity ratios:** Current Ratio, Quick Ratio.

3.2 Financial Distress Prediction Models

Use **modified Z-score models** as applied by Zhou & Lok (2024) to quantify financial distress risk.

3.3 Liquidity–Structure–Performance Model

Apply **PLS-SEM** modeling (as in Nam, 2024) to quantify pathways: liquidity → capital structure → performance.

3.4 Risk Management Impact Analysis

Implement frameworks distinguishing **direct vs indirect deviations**, leveraging risk management to align actual with target leverage faster.

Table 3. Analytical Toolset for ALBA

Tool/Model	Purpose	Key Metric or Input
Ratio Analysis	Monitor structure & performance	D/E, ROE, EPS, Tobin's Q
Distress Model	Estimate risk of default	Modified Z-score
PLS-SEM	Evaluate mediation effects	Liquidity, capital structure
Deviation Analysis	Assess adjustment speed	Direct vs indirect leverage deviations

4. Application to ALBA Company

Though ALBA Company is hypothetical, this section outlines how these tools can be applied in practice.

4.1 Current Structure and Risk Profile

Assume ALBA currently has D/E ratio of 1.2, moderate liquidity (current ratio ~1.5), and performance metrics matching industry peers. The firm sees increasing volatility and regulatory scrutiny, prompting review of its risk exposure.

4.2 Performance vs Leverage

Using ratio analysis: compare ALBA's ratios to benchmarks (e.g., sector averages). If EPS and ROE trail despite high leverage, it signals inefficiencies similar to findings in Hasan & Ohee.

4.3 Liquidity's Role

If liquidity is robust, PLS-SEM modeling (based on Nam, 2024) could show whether liquidity boosts performance directly or indirectly via structural optimization. For instance, ALBA might leverage cash reserves to reduce debt, improving performance.

4.4 Distress Risk Assessment

Calculate modified Z-score using ALBA's financial data; compare with thresholds. A low Z-score suggests high distress risk—paralleling Zhou & Lok findings.

4.5 Adjusting Capital Structure via Risk Management

Using the Li & Shiu framework, if ALBA detects direct deviations (i.e., actual leverage significantly deviates upward from planned levels), risk management protocols can be activated to adjust leverage ~30% faster.

Table 4. ALBA's Framework Application

Step	Action	Expected Outcome
1	Compute ratios and compare	Identify underperforming leverage
2	Estimate Z-score	Quantify distress risk level
3	Run PLS-SEM	Understand liquidity's mediation role
4	Identify deviations	Classify direct vs indirect leverage drift
5	Implement risk-based adjustment	Bring leverage closer to target faster

5. Comparative Analysis

This section juxtaposes outcomes across different scenarios to guide ALBA's strategic direction.

Table 5. Scenario-Based Comparative Analysis

Scenario	Leverage Strategy	Liquidity Role	Risk Management	Expected Performance Outcome
High leverage, weak liquidity	Maintain current debt-heavy financing	Liquidity constrained	Low adjustment capacity	Elevated distress risk, suboptimal EPS/ROE
Moderate leverage, strong liquidity	Shift toward equity or pay down debt	Strong mediator to performance	High adjustment capacity	Improved performance, reduced distress risk
Aggressive deleveraging	Rapid debt reduction	Liquidity drained short-term	Intensive risk management	Stabilization over time, improved Z-score
Growth-oriented with fine-tuned leverage	Balanced D/E aligned to target	Controlled liquidity	Proactive deviation correction	Optimal trade-off via trade-off theory

6. Discussion & Strategic Recommendations

6.1 Key Insights

- **Optimal range of leverage** exists; both excessive and insufficient debt hinder performance. Empirical findings stress responsiveness to leverage.
- **Liquidity is a critical enabler**—it can bolster performance directly and enable structural adjustments.
- **Predictive models** such as modified Z-scores are essential for proactive distress risk detection.
- **Risk management frameworks** that distinguish direct vs indirect deviations allow faster correction of structural drift.

6.2 Recommendations for ALBA

1. **Establish performance and leverage benchmarks** derived from industry and empirical studies (Hasan & Ohee).

2. **Liquid reserves should be maintained** at levels that facilitate strategic adjustments and buffer downturns.
3. **Implement early-warning systems** like the model from Zhou & Lok for real-time distress monitoring.
4. **Define a target leverage range**, consistent with trade-off theory, and regularly review via ratio analysis.
5. **Deploy risk-management protocols** to rapidly adjust actual leverage when deviations occur.
6. **Use mediation modeling** (PLS-SEM) to understand internal dynamics between liquidity, structure, and performance.

7. Conclusion

This paper provides a comprehensive framework for ALBA Company to mitigate financial risks through financial structure analysis, grounded in empirical research from 2013 to 2023.

Key contributions include:

- Synthesizing findings on how leverage and liquidity affect performance and distress across contexts.
- Adapting theoretical frameworks (trade-off, pecking order) into a practical decision-making model.
- Incorporating predictive models and risk management strategies for proactive adjustment.

By aligning its capital structure within empirically valid parameters, maintaining liquidity, and deploying risk-based corrections, ALBA can optimize performance while containing financial risks.

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