# Editorial

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**Biographical notes:** Dr P. K. Jain is Professor of Finance and holds the Modi Foundation Chair. He has teaching experience of more than 30 years in subjects related to finance and accounting. He has taught at the University of Paris 1 and is Visiting Faculty at I.C.P.E, Ljubljana to teach an MBA (International) programme. He has authored/co-authored more than a dozen text books and research books in areas of finance and accounting and has published nearly 100 research papers in national and international journals. His contributions in the field of finance have been recognised at national and international levels.

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In the uncertain and turbulent business environment, assessment and management of risk is becoming crucial for the effectiveness of any enterprise. Flexibility is a risk-mitigating mechanism as it provides more options, change mechanisms and freedom of choice to an enterprise to deal with uncertainty. Both flexibility and risk are interrelated with each other. Flexibility in the systems helps in managing the risk, for example, financial flexibility of options can be used as a hedging mechanism. Likewise, flexibility in a manufacturing and supply chain will help to cope with the changing customer requirements and minimise the operational risk. This special issue contains research papers which have examined this relationship in different contexts as well as evaluated the variables related to risk and flexibility separately.

The paper by Mousumi Bhattacharya and Catherine C. Giapponi has examined in-depth the relationship of outlay flexibility and organisational risk in the context of US firms for the period 1985–2001. The two notable conclusions of this study are:

- the organisational risk (manifested by variations in profitability) would induce the firms to be more flexible in terms of variations in capital expenditure as well as revenue expenses such as labour cost, R&D expenses, and selling and general administrative expenses
- the firms adopting flexibility in their capital expenditures as well as revenue expenses are able to show better financial returns over a period of time.

The study reported by Calin Gurau and Ashok Ranchhod, dealing with the dynamic and unpredictable environment in the biopharmaceutical sector, has proposed a multi-level model of flexible risk management approach. The study focuses on risk management procedures, implemented by small- and medium-sized enterprises in the UK bio-pharmaceutical sector in their new product development process.

Another study was carried out by P.K. Jain and Surendra S. Yadav in the Indian context to examine the capital structure practices of 137 Central Public Sector Enterprises (PSEs) for a period of 13 years (from 1991 to 2003). The major finding of the research is that the most of the PSEs have made excessive use of debt causing liquidity shortages and default risk. On the contrary, it is desirable that the PSEs have 'unused debt capacity' for future needs in order to preserve operating flexibility.

Another important domain of the need of risk management techniques lies in the equity trading at the stock exchange. A case from the Casablanca Stock Exchange, studied by Mazin A.M. Al Janabi, focuses on key equity trading risk management methods, rules and procedures that financial entities, regulators and policy makers should consider in setting-up their daily equity trading risk management objectives.

The changes in the decision situations under operational risk environment demand the study of the behaviour of various flexibility alternatives. The paper by Boppana V. Chowdary, Sushil, K.S.P. Rao and Arun Kanda underscores the importance of manufacturing flexibility and proposes a model to evaluate the various feasible flexibility options in a manufacturing system. It uses a tool like the entity-relationship model and illustrates it with industrial case data for machine and routing flexibilities.

The papers reported in this special issue deal with a spectrum of flexibility and risk management considerations, encompassing organisational risk, risk in the context of new product development, capital structure decisions, equity trading and operational environment. The related and relevant flexibilities are outlay flexibility, new product development process flexibility, financing and operating flexibility and manufacturing flexibility. The papers cover both the context of the developed world, such as the USA and the UK and the emerging economies, such as India. These papers reflect the close nexus of flexibility and risk management. In fact, these two aspects can be said to have concurrent existence virtually at every important facet of an enterprise.