

Assessment of Free Risk Capacity under Liquidity Considerations in International Companies*

Dietmar ERNST and Alicia SINSEL

Nuertingen-Geislingen University, Nuertingen, Germany

Correspondence should be addressed to: Dietmar ERNST, dietmar.ernst@hfwu.de

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Abstract

The transformation of entire industries, global crises, and increasingly detailed legal requirements and auditing standards for risk control require companies to know and analyze their free risk-bearing capacity. Free risk-bearing capacity is the maximum amount of risk that a company can bear without endangering its continued existence. However, companies lack scientific approaches for the practical fulfillment of these requirements. The objective of this paper is to develop and apply a practicable concept that enables companies to obtain a picture of their free risk-bearing capacity that can satisfy legal requirements. We focus on corporate liquidity and present two variants for deriving free risk-bearing capacity and calculating the probability of the company's existence being threatened. Variant 1 uses liquidity in a narrow sense and refers directly to net cash flow and liquidity ratios. Variant 2, on the other hand, uses liquidity in a broad sense, based on the probability of insolvency. Both concepts lead to similar results in the application example used here, with variant 1 focusing on liquidity management and variant 2 considering rating aspects.

Keywords: Simulation-Based Planning, Free Risk Capacity, Liquidity, Rating