



## **Internal Audit Maturity and Governance Transparency as Mediators between Financial Risk Management, Entrepreneurial Leadership and Organizational Resilience**

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### **ABSTRACT**

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The effects of risk management along with entrepreneurial leadership on organizational resilience serves as the focus of this study. Additionally, this study aims to explore the dual mediating role of Internal Audit Maturity and Governance Transparency in the relationship between Financial Risk Management, Entrepreneurial Leadership, and Organizational Resilience. The sample size of this study comprises of 375 participants from textile, glass, and light engineering SMEs in Faisalabad, Pakistan. Primary data was collected through structured questionnaires featuring 5-point Likert scales. The data was analyzed using structural equation modeling (SEM) with confirmatory factor analysis and bootstrapped mediation analysis. As per the study results, strategic financial risk management and entrepreneurial leadership practices have a strong impact on organizational resilience. Furthermore, the relationships are mediated with internal audit maturity and governance transparency. SME managers in Faisalabad should focus on entrepreneurial leadership behaviors and financial risk management practices, while reinforcing internal audit systems and governance transparency, to ensure adaptability and rapid recovery during disruptions. It contributes by clarifying how entrepreneurial vision and financial safeguards interact with governance mechanisms to build resilience in manufacturing SMEs within emerging economies. The current research sample size and geographical location are the main limitations of the study.

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## 1.0 Introduction

In today's world, despite their overwhelming importance, SMEs tend to struggle with maintaining their long-term viability due to financial market changes, market disruptions, and institutional failures (Francisca, 2025). The flailing state of SMEs is perpetuated by globalization, fluctuating demand, and energy crises, economic downturns, and supply chain disruptions. SMEs are required to have predetermined mechanisms to adapt to these uncertainties, and how to best achieve such aid is an area of primary concern. Understanding what strengthens organizational resilience is particularly important in areas with minimal governance, institutional support, and weak regulatory frameworks (He et al., 2023). Over the last twenty years, organizational resilience has gained notoriety. Organizations are consistently confronted with mounting turbulence in the economy, politics, and technology. The ability to anticipate, plan, react, and make organizational changes due to gradual changes, or abrupt shocks is called resilience.

Entrepreneurial leadership focuses on how leaders lead organisations during times of uncertainties. This leadership model entails the ability to influence others to see and exploit entrepreneurial opportunities based on the driving vision, insight, creativeness, and willingness to take a risk (McQuillan, 2023). Leaders can encourage entrepreneurial orientation and thus persuade their subordinates, remain flexible, and instill a spirit of constant change, thus increasing organisational resilience to disruption (Dahmen, 2023). Organisational resilience is a complex construct which summarizes the capacity of a firm to respond, withstand, and recuperate following shock. It is not only about survival, but also agility, learning, and renewal and allows firms to come out stronger after a crisis. To small and medium enterprises (SMEs) operating in emerging economies, resilience means remaining competitive, maintaining a job, and playing a role in industrial development amid systemic pressures (Miceli et al., 2021).

High audit maturity in SMEs refers to the successful implementation of the risk of financial risks and the methodical analysis of the decisions of the leaders (Molete et al., 2025). Internal audit maturity, through agency theory, is a control system that alleviates information asymmetry and opportunistic behaviour hence making it more accountable and resilient. The ability of firms to survive external shocks is significantly increased by enhancing financial risk management by mature audit systems (Zekos, 2021). Governance transparency, an equally salient component, refers to the openness and clarity of governance processes, policies, and information. Through good governance transparency, entrepreneurial leaders are empowered to have the correct vision of stakeholders and also to make the financial risk management practices transparent and accountable (Zekos, 2021). As a result, governance transparency does not just moderate the effectiveness of financial discipline and leadership vision in enhancing resilience, but also increases their efficacy.

In the current study, the investigator attempts to reveal how SMEs in the manufacturing sectors in Faisalabad are exposed to financial instability, lack of governance and leadership. Despite the awareness that managers and entrepreneurs need to be financially prudent and entrepreneurial, the lack of sound audit and governance systems compromises resilience building efforts. Such a shortcoming is further compounded by lack of empirical models to explain the

mediating effects of internal audit maturity and governance transparency. The main research questions are how financial risk management and leadership of the entrepreneurial organisation contribute to organisational resilience in SMEs and the role of a mediating factor including internal audit maturity and governance transparency in the mediation.

## 2.0 Literature Review

The theoretical bases of the research rely on a number of organizational and management theory concepts. These concepts demonstrate how businesses can become resilient in the presence of uncertainty. The resource-based view is at the center and states that firms develop a sustainable advantage when they create resources that are valuable, rare, difficult to imitate and are unique. Such resources enable a company to be more efficient compared to its competitors. The dynamic capabilities approach introduces the element that a firm should not only have these resources but also identify them, capture and adapt them according to the changing circumstances. In perspective, financial risk management and entrepreneurial leadership are interpreted as dynamic capabilities that assist the small and medium sized enterprises (SMEs) in foresee risks, change strategies, and repurposed resources to survive crises (Pennetta et al., 2025). According to the theory of resilience, resilience is further defined as a combination of anticipation, flexibility and recovery. The combination of these theories is that resilience is a combination of abilities, leadership vision, and governance mechanisms (Liu et al., 2021).

Witnessed research outcomes confirm that effective financial risk management improves performance and enhances stability within an organization. Companies that manage financial risks, diversify, and control workings and factors well tend to be insulated from economic downturns and external shocks (Legenzova et al., 2025). More so, effective financial risk management combined with the organization's strategy ensures that far-reaching results are achieved, including innovation and competitiveness. Strategic investments that reinforce organizational effectiveness validate that effective financial risk management enhances resilience, especially among SMEs operating in volatile environments (Golgeci et al., 2020). Entrepreneurial leadership fosters flexibility and growth. This type of leadership possesses vision, innovation, proactive behavior, and risk tolerance. Research demonstrates that entrepreneurial leaders tend to foster flexibility and innovation, which, in turn, encourages employees to embrace change. Such leaders with a vision for SMEs help respond to new challenges and adjust business strategies to remain competitive, even during crises (Bivona and C. Cruz, 2021). Recent literature underscores the effectiveness of entrepreneurial leadership in energizing SMEs. The results indicate that entrepreneurial leadership is a dynamic ability that enables SMEs to be pro-active and disruptive when faced with difficulties (Zighan et al., 2022).

The concept of organizational resilience is gaining traction in the management literature and is increasingly considered a strategic imperative. Earlier research focused on the connection between resilience and the financial capability to "weather the storm" or recover after a crisis. Recent findings, however, suggest that resilience includes multidimensional attributes such as robustness, agility, and renewal. It has been shown that effective firms do not only learn to absorb shocks; they "transform" turbulence into opportunities. As for SMEs, good resilience has been

linked to strong networking, ingenuity, and adaptable leadership (Li and Shapait, 2025). It is interesting to note that resilience is not the direct result of external factors or the size of a company. Rather, it can be the product of intentional, strategic efforts and governance actions. This supports the theory that financial resources, governance, visionary leadership, and organizational processes such as audits and transparent governance are the backbone of resilience (Bougeonou et al, 2024).

One of the core organizational frameworks that fosters the integration of risk management and resilience is the maturity of the internal audit function. More sophisticated internal audit functions offer better risk measurement, enhanced compliance, and better alignment of strategic controls. It has been established that even small companies can significantly benefit in case of a well-organized audit process, financial discipline, transparency, and responsibility (Amanamakh, 2024). The maturity of the audit is linked to investor confidence and stakeholder trust in emerging markets, and increases resilience indirectly. The findings indicate that internal audit maturity is an intermediary that enhances financial risk management and leadership vision that results in resilient outcomes (Tarigan et al., 2025).

The transparency of governance also promotes the resilience of an organization because it makes decision-making open, fair, and accountable. Studies indicate clear governance reduces agency costs, enhances allocation of resources, and increases the confidence of the stakeholders. The transparency of governance in SMEs is not fully institutionalized, but in the cases where it occurs, it is associated with improved performance, enhanced relations with stakeholders and increased capacity to respond to regulatory and market shocks. Recent research shows that transparent governing assists the entrepreneurial leaders to legitimize his vision and acquire resources efficiently (Nwuke and Adeola, 2023). The concept of transparency also enhances financial discipline as there will be adoption, scrutiny, and trust of the financial risk management practices by the stakeholders, which increases resilience. On the whole, these results demonstrate the role of governance transparency to transform financial and leadership strengths into organizational resilience.

Although such studies are valuable, quite a number of gaps are found in the literature. The vast majority of financial risk management, entrepreneurial leadership, and resilience studies are usually conducted on a large firm in a developed economy, leaving SMEs in developing economies unexplored. Researchers tend to consider financial practices, leadership styles, or governance mechanisms separately when the SMEs are considered rather than considering the interplay among these elements in a holistic manner. The internal audit maturity of SMEs is particularly under-researched, as the process of auditing is conventionally linked with the larger corporations listed on stock or stock exchange (Palazuelos et al., 2025). Similarly, the transparency of governance has predominantly been examined in large firms with scanty regard to its applicability in small and medium-sized firms where informal governance systems are the dominant form. Additionally, the empirical research in the mediating role of leadership and financial practices on the outcomes of resilience is also sparse, particularly in manufacturing SMEs in South Asia. Such gaps support the importance of a multidisciplinary model that integrates the financial, leadership, auditing, and governance perspectives to interpret the concept of resilience in SMEs (Akor, 2023).

### 3.0 Methodology

The study concentrated on small and medium sized enterprises (SMEs) in Pakistan and particularly in the city of Faisalabad, which is one of the major industrial centres. The textile, glass, and light engineering industries are the main drivers of national economy and are located in Faisalabad but are prone to economic fluctuations and government policies. The small businesses of this region often have scarce resources and market instability, and resilience is an essential trait of survival. The research was focused on the managers, finance officers and top executives who understand the financial activities of their companies, leadership styles, audits system and governance procedures.

The sample size was determined based on conventional guidelines of SEM, which require a large sample size to enhance the reliability of parameter estimation. The number of respondents was 375 which was sufficient to obtain statistically significant results in the relationship analysis of the variables of interest. To enhance representativeness and bias levels, a stratified random sampling technique was applied which included firms in the textile, glass, and light engineering sectors. Respondents from each stratum were chosen based on their managerial tier and involvement in financial risk management, leadership, governance, and auditing to ensure adequately informed opinions from key decision-makers.

Managerial perceptions of SMEs concerning the study variables formed the basis of the data collection, which utilized a structured survey questionnaire. The questionnaire is composed of well-established scales from prior research which were modified to the Pakistani context to enhance understanding and relevance. Categorical rating of the responses was done on a five-point Likert scale from “strongly disagree” to “strongly agree” that captures detail. Regarding reliability, clarity, content validity, among others, the final form underwent several changes after pilot testing with several SME managers.

Use of both electronic and in person questionnaires allows us to gauge the level of technology access that the SMEs have. Protecting the anonymity of the respondents and the assurance that the participation was optional motivated the respondents. The respondents also appreciated that the data collected was meant purely for academic reasons. Providing clarity to the respondents helped in building trust which motivated the managers to provide correct answers which was critical.

## 4.0 Findings and Results

### 4.1 Measurement Model

**Table 4.1 RELIABILITY ANALYSIS**

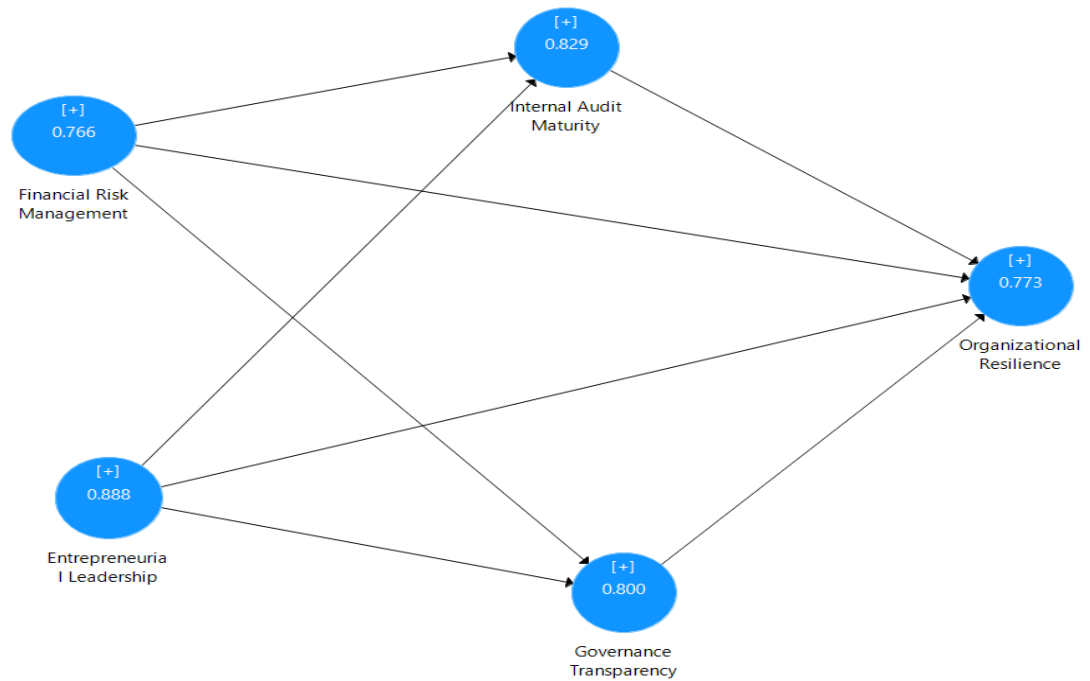
	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
Entrepreneurial Leadership	0.84958	0.85058	0.88835	0.57149
Financial Risk Management	0.65245	0.72486	0.7663	0.53609
Governance Transparency	0.71807	0.73659	0.79981	0.54086
Internal Audit Maturity	0.76469	0.77049	0.82856	0.57931
Organizational Resilience	0.68349	0.69357	0.77325	0.5082

The reliability test displays that the measuring of the Entrepreneurial Leadership constructs is precise. The concept also demonstrates a good level of internal consistency and construct reliability with a Cronbach Alpha of 0.85, Rho-A of 0.85, composite reliability of 0.89, and AVE of 0.57. The scales of Financial Risk Management, Governance Transparency, Internal Audit Maturity, and Organizational Resilience also measure well. They are moderate-acceptable in terms of their Cronbach alpha (0.65-0.76). Composite Reliabilities are average, ranged 0.77 to 0.83 and all AVEs are greater than 0.50 showing convergent validity.

**Table 4.2 VALIDITY ANALYSIS HTMT**

	<b>Entrepreneurial Leadership</b>	<b>Financial Risk Management</b>	<b>Governance Transparency</b>	<b>Internal Audit Maturity</b>	<b>Organizational Resilience</b>
Entrepreneurial Leadership					
Financial Risk Management	0.45175				
Governance Transparency	0.52891	0.62065			
Internal Audit Maturity	0.37629	0.7124	0.6208		
Organizational Resilience	0.44952	0.73693	0.8405	0.60142	

The HTMT validity test indicates that majority of the relationships between the constructs are lower than the usual 0.85 threshold, implying that there is adequate discriminant validity. Nevertheless, other relations are near to the upper limit and can give clues to overlap. As an illustration, Organizational Resilience is highly correlated with Governance Transparency, 0.84 and with Financial Risk Management, 0.74. It indicates that these notions may be close or overlap to some degree in terms of the measurement. On the same note, Internal Audit Maturity shows moderately correlated relationship with Financial Risk Management at 0.71, which needs to be addressed. On the contrary, lower relationships with Entrepreneurial Leadership are (between 0.38 and 0.53). This shows that Entrepreneurial Leadership stands out more regarding the other constructs. In general, there is good discriminant validity.



**Figure 4.1 Measurement Model**

#### 4.2 Direct Effect PLS SEM

**Table 4.4 Direct Effect PLS SEM**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Entrepreneurial Leadership -> Governance Transparency	0.32232	0.30257	0.029	11.11455	0
Entrepreneurial Leadership -> Internal Audit Maturity	0.14585	0.15028	0.03185	4.57885	0.00101
Entrepreneurial Leadership -> Organizational Resilience	0.11032	0.11936	0.03109	3.54771	0.00529
Financial Risk Management -> Governance Transparency	0.2816	0.29449	0.04446	6.33362	0.00009
Financial Risk Management -> Internal Audit Maturity	0.4732	0.46761	0.01768	26.76023	0
Financial Risk Management -> Organizational Resilience	0.14301	0.13795	0.04933	2.89902	0.01586
Governance Transparency -> Organizational Resilience	0.503	0.48895	0.03649	13.78636	0
Internal Audit Maturity -> Organizational Resilience	0.12572	0.14443	0.03134	4.01191	0.00247

The direct effect PLS-SEM results show that most of the hypothesized relationships are significant, with p-values much lower than 0.05 and high t-statistics. This indicates strong effects. Entrepreneurial Leadership has a significant positive impact on Governance Transparency, Internal Audit Maturity, and Organizational Resilience, but these effects range from moderate to small. Financial Risk Management is a more influential factor, particularly in Internal Audit Maturity, which has a very high t-statistic. It also significantly affects Governance Transparency and Organizational Resilience. The strongest overall effect is between Governance Transparency and Organizational Resilience. Additionally, the effect of Internal Audit Maturity on Organizational Resilience is significant, though smaller. Overall, the findings suggest that both leadership and risk management are important factors, but governance transparency stands out as the most effective way to improve organizational resilience.

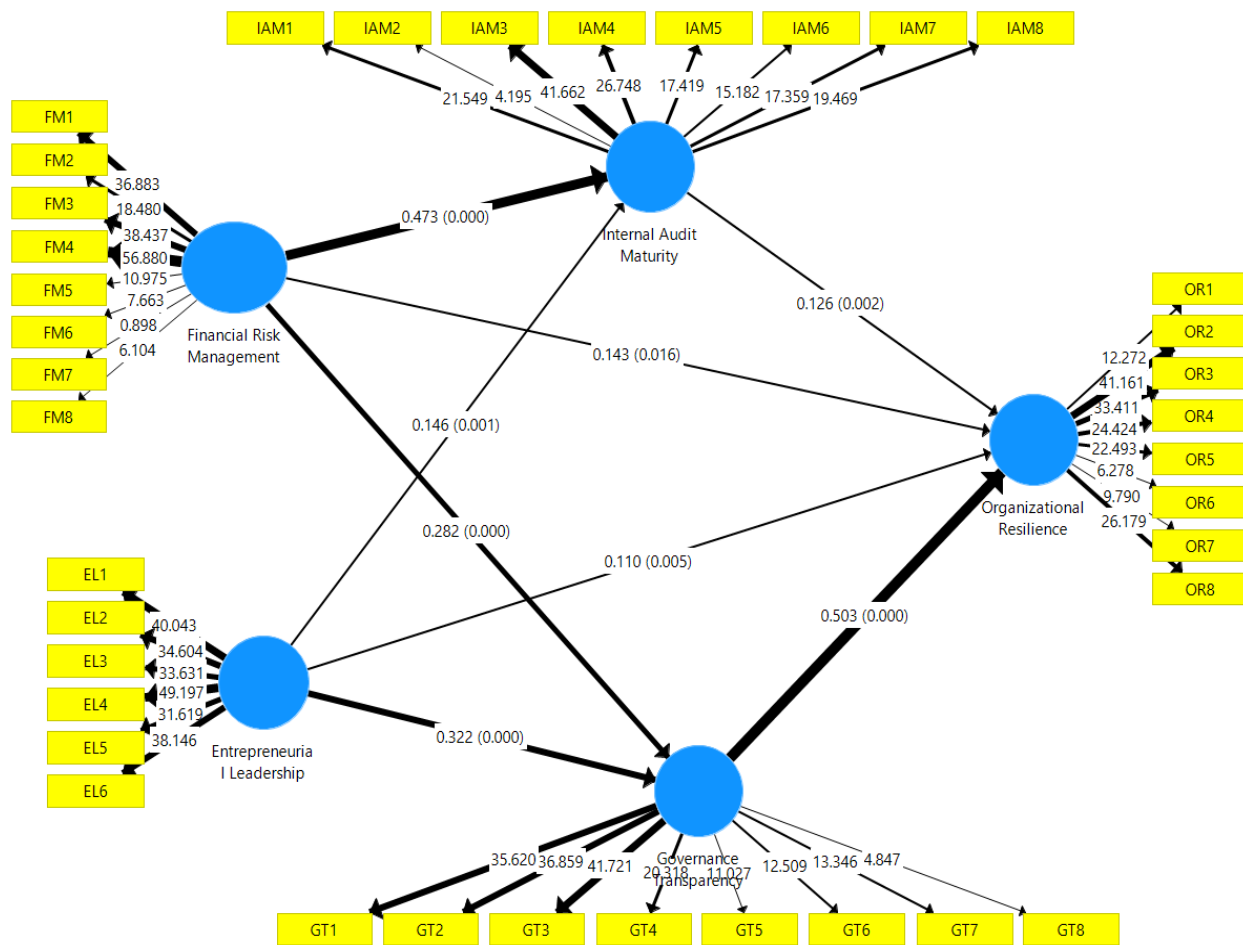
#### Mediation Analysis

**Table 4.5 Mediation Analysis**

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>
Entrepreneurial Leadership -> Governance Transparency -> Organizational Resilience	0.16213	0.14724	0.01042	15.56626	0
Financial Risk Management -> Governance Transparency -> Organizational Resilience	0.14165	0.14499	0.02988	4.74058	0.00079
Entrepreneurial Leadership -> Internal Audit Maturity -> Organizational Resilience	0.01834	0.02139	0.00527	3.47873	0.00593
Financial Risk Management -> Internal Audit Maturity -> Organizational Resilience	0.05949	0.06755	0.0146	4.07478	0.00223

The mediation analysis shows that the two mediation variables, Governance Transparency and Internal Audit Maturity, both act as significant mediators between leadership and risk management with organizational resilience. The strongest mediation effect occurs in the connection between Entrepreneurial Leadership and Organizational Resilience through Governance Transparency. These finding highlights how important transparent governance is for turning leadership into resilience. Financial Risk Management also has a strong indirect effect through Governance Transparency, suggesting that transparency is a key way to build resilience. Although the mediation effects of Internal Audit Maturity are not as strong, they are still significant. Entrepreneurial Leadership and Financial Risk Management mediate the relationship between them and resilience.





**Figure 4.2: Structural Equation Model**

## 5.0 Discussion and Conclusion

The findings of current research clearly support the direct and mediation effect between examined variables. Specifically, the findings of current research clearly indicated that financial risk management and entrepreneurial leadership significantly influence the organizational resilience. The findings of current research aligned with the findings of previous studies and support the theoretical framework of the study. Moreover, the findings also indicated that internal audit maturity and governance transparency mediate these relationships. The literature also support the argument that maturity of internal audit facilitates the relationships between observed variables not only in direct form but also through mediation. In conclusion, the findings are well supported through previous studies and theoretical models; thus support the authenticity of the current research.

SME managers in Faisalabad should focus on entrepreneurial leadership behaviors and financial risk management practices, while reinforcing internal audit systems and governance transparency, to ensure adaptability and rapid recovery during disruptions. It contributes by clarifying how entrepreneurial vision and financial safeguards interact with governance mechanisms to build resilience in manufacturing SMEs within emerging economies. The current research sample size and geographical location are the main limitations of the study. Future

researchers are encouraged to replace this study in other regions with adding one moderating variable to strengthen the model of the study.

**Raheel Mumtaz:** Problem Identification and Theoretical Framework

**Khalid Hussain:** Data Analysis, Supervision and Drafting

**Muhammad Rizwan Kamran:** Methodology and Revision

Conflict of Interests/Disclosures

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