Review of the paper G. Lukianchuk 'The impact of enterprise risk management on firm performance of small and medium enterprises'

Conclusion: Revise and resubmit

The paper is written in good English. Text is well organized; sentences are very clear and concise. Research question is mainly based on the gap in literature and therefore is clearly developed. Regression methods applied by the author (seemingly unrelated regression, SUR) are non-trivial for estimation this kind of research questions. At the same time, SUR is used correctly. Author provides a discussion of the results, giving references on recent studies that support his findings.

At the same time, there are some issues that should be revised or at least taken into account. Author gives a list of factors that are considered to predict both firm performance and cashflow: 1) auditor and non-auditor fees, 2) gender, 3) board structure, 4) credit rating. Author assumes that these four indicators reflect Enterprise Risk Management (ERM), but he does not supply the reader with a literature that supports this assumption. He provides a relevant discussion about each of these components of the activity of enterprises, but the author does not speak about how he selected exactly these components as indicators of ERM. Moreover, there is no discussion devoted to any existing measures of ERM. The question of validity of these measures is also omitted. However, this is a key point of the paper. Without such a discussion the indicators and their number seem to be selected in an accidental precarious way. For example, the author could also pick up indicators of ERM such as 1) qualification of management, 2) age, 3) international experience of CEO.

It is also questionable how the author calculates the selected indicators. Again, he gives the formulae with no discussion and referencing these measurements in the literature. Author starts with two indicators of dependent variables: volatility of cahflow and average return on assets. On the basis of literature author expects the correlation between these two variables. Meanwhile, the literature about volatility itself is omitted, whereas there are several kinds of volatility known in the literature. The standard formula for volatility contains the component of time. It means heteroskedasticity problem: in a regular case, the width of distribution of a financial instrument increases over time. That's why a small talk on a selected financial instrument (operating cashflow) is called for. Similarly, instead of the average return on assets (average ROA) literature suggests the weighted average return on assets (WARA) because it distinguishes tangible assets from intangible ones. Efficient risk management per se is a good and quite common example of an intangible asset of enterprises. Above all, author completely ignores the alternative explanations of the dependent variables. For example, Glosten and Milgrom (1985) found that the liquidity provision process could explain volatility. From Smirlock (1985), we know that market concentration can be a good explanation for returns on assets.

Author uses 'number of executive directors' (NED) in his calculations. This criterion may work only for medium and big enterprises, and it seems to be less informative for researchers targeting a variation between small enterprises with, say, one owner and few employees working under his or her control. Author interprets the impact of NED by concluding that 'large boards do bring advantage to a company's future value'. However, the variation in numbers of executive directors can be a consequence of either growth, or shocks. Moreover, current number of higher mangers in a company may be reduced in the course of a risk management policy. There are also some concerns about another predictor - 'credit rating'. It performs mainly as an endogenous variable because it includes external economic conditions in the sector that are hardly related to the management activity. Meanwhile, author admits this problem in a final section.

There are a number of issues related to the style of work. It is unacceptable to finish a section with a formula or equation (see the part *Methodology*). It is much better to end up each section with a mini-conclusion. Sometimes author gives notes about non-existing terms in the equations. For example, I did not find the term 'μ' in *VC* formula. Author also slightly repeats his finding about significant impact of a service sector. Just compare first sentences in the last paragraph with the ones in the third paragraph from the bottom in the section *Results*.

In general, I recommend making this paper punchier by focusing on the most interesting results – i.e. insignificance of gender and size, and importance of a sector.