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How Does Risk Taking Propensity Impact Firm Performance?

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Abstract

Purpose
Risk taking is the foremost component of entrepreneurial orientation. As the business grows, firm faces numerous kinds of risks in terms of finance, competition, latest technology; political party and their new policies etc. These all risks may impact on the performance of the business. The paper develops a model defining the relationship of risk taking with firm's performance and exploring the impact of former on the latter.
Design/Methodology/Approach
The study is descriptive in nature. A cross-sectional design has been adapted to demeanor the present study. Data of 500 firms has been collected through survey method. To determine the relationship between risk taking and business performance descriptive statistics and factor analysis has been used.
Findings
There is a relationship between one of the main dimension of strategic orientation i.e. risk taking propensity and in four constructs of firm's performance.

Keywords Risk, risk taking, performance, entrepreneur, customer

Introduction

Risk taking is the foremost component of entrepreneurial orientation. As the business grows, firm faces numerous kinds of risks in terms of finance, competition, latest technology; political party and their new policies etc. These all risks give an impact on the performance of the business. Generally literature shows the positive relation of these two constructs (Miller & Bromiley, 1990; Folta, 2007; Yu, 2012), yet few studies are there which did not find any relation or find very little relation among them (Bowman, 1980; Naldi et al., 2007; Tang & Tang, 2012; Kresier et al., 2013).

Performance is the main indicator to measure the success of any organization. It can be defined as an operational ability with respect to satisfy the needs of various parties like customers, creditors, owners and society (Ford et.al, 1982, Dess et.al, 1984). Managerial effectiveness and ineffectiveness can be measured by the performance of any enterprise (Wiklund et.al, 2003, Ghalayini et.al, 1997) and a good performance can be measured by the accomplishment of enterprise's objectives, initiatives for future, developing methods to improve the organizational efficiency (Neely et.al, 1997, Purbey et.al, 2007, lynch et.al 1991, Bititci et.al, 2000).

The study endeavors to evaluate the relationship of one of the main dimension of strategic orientation i.e. risk taking with four indicators (given by Kaplan and Norton) of firm's performance. Further the paper has been structured in various sections. In sequence, next section is literature review followed by objectives and hypothesis. Methodology is explained in the next section that defines research design, sample size and its characteristics followed by measurement and validation of the relationship of two constructs i.e. risk taking and firm's performance. Results for the analysis has been described in the followed section and then conclusion and research imitation has been elucidate.

Review of Literature

Risk taking is the foremost component of entrepreneurial orientation. It completely depends upon individual's risk attitude that how much risk they can manage to pay for in exchange of a precise return. The entrepreneur may not be a successful manager (Kao, 1989) but if he is risk seeker and risk taker; carry out new tasks; creator and innovator (Schumpeter, 1950); skeptical as a scientist; realistic and goal oriented (Kao, 1989); considered as successful entrepreneurs.

The extent of uncertainty in business defines risk (Barrett et.al, 2000). It is due to lack of knowledge or unable to predict the circumstances (March, 1978). It is obligatory for a business to be aware about the changes happening not only internally but also externally in the form of government policies, regulations, new acts, technological changes etc. (Islam et.al, 2012). Entrepreneur must have a third eye to scan opportunities and level of risk with organizational strengths and weaknesses (Dinu, 2012). As the business grows a firm faces numerous kinds of threats in the form of non-availability of funds, inadequate capital, availability of loans at high rates etc. (Gabriel & Baker 1980; Houston et al., 1999; Knechel, 2007; Chen et al., 2010; Gurley & Lugovskyy, 2019). Level of competition increases with the growth and industrialization of an economy and it proves menace for a business concern (Anderson, 1990; Borch et al., 1999; Reed et al., 2000; Ireland & Webb, 2007; Dhliwayo, 2014). An entrepreneur should be well smart to tackle all the legal formalities and complete the business proceedings; otherwise it may hinder the growth of an enterprise (Nawaser et al., 2011; Dutta et al., 2013; Evans & Gabel, 2020).

Efficiency of an enterprise is being measured on the grounds of input (what we had planned in past) and output (what we had achieved now) (Ghalayini et al., 1997; Neely et al., 1995; Gupta & Govindarajan, 1984). Many researchers emphasizes on performance management system but the choice of metrics for business performance has been the issue since long (Bourne et al., 2000; Kartalis et al., 2013).

Choice of the performance indicators for any business concern is very crucial decision. It is explicated through this statement given by Kaplon & Norton "Effective measurement must be an integral part of management process." Managerial decisions would be proved fruitful only when performance has been measured in a proper and accurate manner. On the basis of measured performance, potential judgment is being taken by the management (Dess & Robinson, 1984; Ellis, 2006; Birley & Westhead, 1990; George et al., 2001). Literature shows the different indicators to measure the financial performance of a business. Many scholars claim that existing system is lagging behind due to the little attention on non-financial characters of performance. After realizing some of the shortcomings in the current organism, Kaplan & Norton, in 1992 introduced such a performance measurement system which overlapped the prevailing issues of internally focused measurement structure (Forker et al., 1996; Zahra & Garvis, 2000; Johnson & Kalpan, 1987; Bourne et al., 2003).

Balanced scorecard introduced by them is proved as a complete package for measuring performance. All the important financial and non-financial indicators are covered in this scorecard. Kaplan & Norton segregated key performance measures in four indicators. First one is financial perspective i.e. what is our image in the minds of shareholders? Hoe we present our performance to the persons who are responsible for the investments. These indicators measure and compare the profitability and sales of an enterprise and also checks return on investment, working capital, return on assets and earning per share. Second indicator described in this measurement system defines customer perspective. This perspective elucidates the appearance of enterprise in the eyes of customers. What is the response of the customers towards objects and services? Due attention is being given on customer's feedback, their complaints and suggestions. Next attribute is internal business process that is related with customers as well as stakeholders. If the quality of product and services is better, it will satisfy the customers and will pay to stakeholders as well. Innovation in product and processes come under this attribute. No one can reinstate the spot of employees in any business concern. If they have such an important place in an enterprise, then they should also keep themselves updated for the company so that they can adjust themselves to the changing environment. Training is the medium to enhance their productivity rate. In this perspective, performance is being judged on the grounds of employee's absenteeism rate, their productivity rate and satisfaction level. This is measured in learning and growth indicator.

All the dimensions of strategic orientation work on the growth and better performance of an enterprise (Wiklund, 1999). The risk taking dimension of strategic orientation motivates an enterprise to depart the orthodox views, take bold decisions and start thinking in an innovative manner. If an enterprise is first in the market to pioneer an object then it may have the benefit of various economies but side by side risk for that enterprise alsostands utmost. Entrepreneurs face risks at every point starting from examining the market, defeating the competitor's strategy, formulating the policies, grabbing the opportunities accessible in the market and countervail the threats (Jogaratnam, 2002; Tang et al., 2008). A highly oriented firm exists in the market for a long run in comparison to low strategic oriented firm.

In this paper relationship; of one of the main construct of strategic orientation i.e. risk taking; is established with the four constructs of firm's performance given by Kaplan and Norton. So the objective of this paper is to develop a model defining the relationship of risk taking with firm's performance and exploring the impact of former on the latter. The study endeavors to test the following hypotheses with regards to Risk Taking propensity and performance of a firm:

H1: Risk taking behaviour of an enterprise effect the performance of the business with regard to customer perspective.

H2: Risk taking behaviour of an enterprise effect the performance of the business with regard to financial perspective.

H3: Risk taking behaviour of an enterprise effect the performance of the business with regard to Internal Business Process.

H4: Risk taking behaviour of an enterprise effect the performance of the business with regard to learning and growth.

Methodology

This study is descriptive and based upon cross sectional research design. Data has been collected through personal survey. A sample of 545 firms has been taken which are registered with

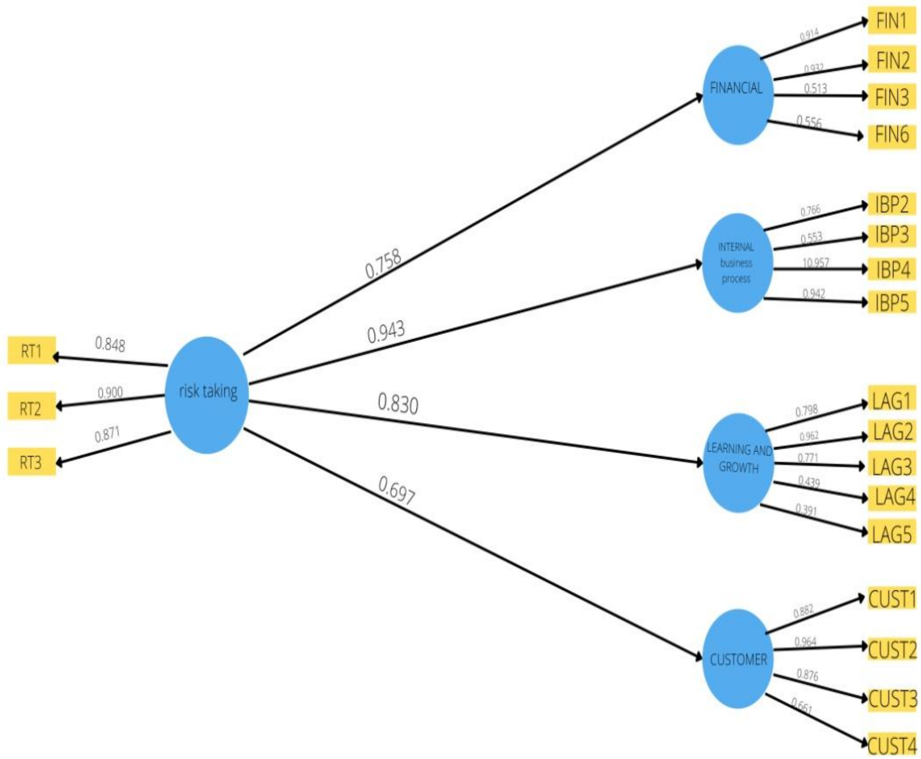
DCMSME. Some responses were found incomplete. Finally 500 firms have been selected for analysis purpose. 77.2 % of selected firms are manufacturing, 18.2% are service and 4.6 % among them are trading firms. 59.2 % are mature firms, 23.2 % are young ones and 17.6 % firms are intermediate firms. 63.8 % of firms are having more than 10 employees, 27.2% of firms have the strength in between 5 to 10 and employees in 9 % of selected firms are less than 5. **Measurement** Five point likert scale has been used to functionalize the risk taking propensity of the firm and to judge the performance of the firm for all the four constructs. Researchers had applied PLS technique to confirm the relationship of the said two constructs. Initially factor loading has been used by the researchers to measure how the itms/variables of risk taking impacts the performance of the firm. Resulte of factor loading confirm us for the strength of relationahip between variable and factor. This ranges between -1 to 1.

Table 1: Factor Loading of Construts

	Customer	Financial Performance	Internal Business Processes	Learning & Growth	Risk Taking
CUST1	0.8554	0	0	0	0
CUST2	0.955	0	0	0	0
CUST3	0.8748	0	0	0	0
CUST4	0.7123	0	0	0	0
FIN1	0	0.8682	0	0	0
FIN2	0	0.8915	0	0	0
FIN3	0	0.5944	0	0	0
FIN6	0	0.6347	0	0	0
IBP2	0	0	0.7889	0	0
IBP3	0	0	0.5232	0	0
IBP4	0	0	0.9569	0	0
IBP5	0	0	0.9436	0	0
LAG1	0	0	0	0.697	0
LAG2	0	0	0	0.965	0
LAG3	0	0	0	0.847	0
LAG4	0	0	0	0.572	0
LAG5	0	0	0	0.492	0
RT1	0	0	0	0	0.8539
RT2	0	0	0	0	0.8983
RT3	0	0	0	0	0.8659

Factor loading process tells us that which factor impacts the most. If the values come closer to -1 or 1, it shows the strong impact on variables and the loading near to 0 proves the weak effect on the variables. Researchers had taken five items of risk taking construct. Two of them were not holding good, so it has been removed. Finally the impact of three items of risk taking construct on the performance of the firm has been studied. Here the factor loading for three items are 0.8552, 0.8984 and 0.8642 which are closer to 1. So it proves that the factor has a strong effect on the variables.

As literature proves the positive relation of risk taking construct and the firm's performance. So the confirmatory factor analysis has been used as researchers has sufficient information about the variables which they intend to study.



Confirmatory Factor Analysis Model

Further reliability of variables and constructs has been measured. High reliability provides consistency of a measure and trusted results. To check the high reliability, each construct must have an AVE (Average Variance Extracted) and CR (Composite reliability). Various researchers used different ways to measure reliability. Here researchers have used Cronbach's alpha to check the reliability.

Table 2: Measurement of Relaiability

	AVE	Composite Reliability	Cronbachs Alpha
Customer	0.729	0.914	0.872
Financial Performance	0.576	0.841	0.752
Internal Business Processes	0.676	0.888	0.820
Learning & Growth	0.541	0.848	0.805
Risk Taking	0.762	0.906	0.845

AVE greater than 0.5 is recommended (Fornell & Larcker, 1981). An Average Variance Extracted less than 0.50 results more errors in items. From the results, we could see the values of AVE that ranges between 0.5424 to 0.7618 that is more than 0.5 and proves high reliability. If Composite Reliability is high; it is a good indication for the items that they are constantly measuring the same construct what it intended to measure. A CR (Composite Reliability) of 0.60 or more is recommended by Fornell & Larcker, 1981 and 0.70 is recommended by Hair, 1997. Here in the above results, CR for all constructs ranges in between 0.8409 to 0.9142 which clearly defines the consistent measurement of the items with constructs. The range of Cronbachs Alpha reliability coefficiency lies between 0 and 1. Internal consistency of variables will be greater if coefficient is closer to 1.0. in the above test all the values of Cronbachs Alpha is more than 0.75 and closer to 1.0. so it proves the more internal consistency of the items.

Table 3: Discriminant Validity

	Customer	Financial Performance	Internal Business Processes	Learning & Growth	Risk Taking
Customer	**0.854**				
Financial Performance	0.706	**0.759**			
Internal Business Processes	0.792	0.878	**0.822**		
Learning & Growth	0.551	0.859	0.827	**0.735**	
Risk Taking	0.685	0.743	0.939	0.770	**0.873**

Here intercorrelation matrix has been used to check the discriminant validity. The values at diagonals represent the highest number. Rest all the values are smaller than the diagonal values. Shared variances are less and unique variance is more. So they are said to be discriminant from each other. Our validity and reliability got satisfied which means construct validity has been established. It depicts that the constructs are purely measuring what they are supposed to measure.

Last one is descriptive analysis where the results are tested to verify whether hypotheses has been accepted or rejected. Hypotheses were framed to check the impact of risk taking propensity of entrepreneurs on four different constructs of firm's performance.

Table 4: Descriptive Analysis and Testing of Hypothesis

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	
Risk Taking -> Customer	0.331	0.325	0.062	0.062	5.344	Sig.
Risk Taking -> Financial Performance	-0.286	-0.282	0.075	0.075	3.808	Sig.
Risk Taking -> Internal Business Processes	0.438	0.435	0.033	0.033	13.432	Sig.
Risk Taking -> Learning & Growth	-0.476	-0.471	0.045	0.045	10.514	Sig.

Here the values represents that our hypotheses hold good and risk taking propensity has a strong impact on the performance of a firm.

Conclusion

The study has been done to check the association between risk taking propensity of an entrepreneur and four different constructs of firm's performance. The study proves that there is a relationship between two constructs. Risk taking propensity of firm impacts on all the four constructs of firm performance. Validity and reliability has been satisfied which means construct validity has been established. Large value of t-statistics shows very strong relationship than the small values. Study concluded that risk taking has relationship with all the four constructs of business performance but it has more association with Internal Business Process and Learning and Growth followed by Customers and Financial Performance.

Limitations and directions for future research

A single response has been considered from each firm for the said purpose of the study. There could be the possibility of response bias. Further the study carries all the limitations of survey method. The current study has taken sample of 500 micro enterprises which include manufacturing, service and trading. The needs, requirements and the challenges of various industries vary. Business dynamism of different sector varies and this needs adoption of different kind of adoption. Further study can be done by considering only one type of nature of enterprise.

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