



ARTICLE

What makes firms embrace risks? A risk-taking capability perspective



Hsiu-Fen Tsai^a, Chin-Jung Luan^{b,*}

^a Department of Marketing Management, Shu Te University, No. 59, Hengshan Rd., Yanchao Dist., Kaohsiung City 82445, Taiwan, ROC

^b Department of International Business, National Dong Hwa University, No. 1, Sec. 2, Da Hsueh Rd., Shoufeng, Hualien 97401, Taiwan, ROC

Received 9 February 2015; accepted 12 January 2016

Available online 28 February 2016

JEL CLASSIFICATION

L25 (firm performance: size, diversification, and scope);
L14 (transactional relationships, contracts and reputation, networks)

KEYWORDS

Risk-taking behavior;
Risk-taking capabilities;
Prospect theory;
Threat rigidity hypothesis

Abstract We adopt a risk-taking capability perspective to study the determinants of risk-taking behavior. We introduce the concept of “risk-taking capabilities”—absorptive capacity, network resources, and organizational slacks—arguing that recognition of threat and risk-taking capabilities will influence risk-taking behavior, while the theoretical debate on threat recognition needs to be clarified. Then, drawing from prospect theory, threat rigidity hypothesis, and resource-based views of firms (RBV), we hypothesize that firms’ performance, risk-taking capabilities, and their interaction will positively correlate with risk-taking behavior. We test our hypotheses using the data from Taiwan’s high technology industries. Our analyses lend support to the threat rigidity hypothesis, and risk-taking capabilities are indeed positively correlated with firms’ risk-taking behavior and also moderate the relationship between past performance and risk-taking behavior.

© 2016 ACEDE. Published by Elsevier España, S.L.U. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Introduction

It is generally agreed that risk-taking is an inevitable process for a firm, but what drives a firm’s risk-taking behavior remains a tangled issue. Scholars have adopted two different streams of risk-taking behavior research in the field

* Corresponding author.
E-mail addresses: soenfen@stu.edu.tw (H-F Tsai),
cjluan@mail.ndhu.edu.tw (C-J Luan).

of organization behavior. One line of argument is associated with prospect theory (Kahneman and Tversky, 1979), which argues that a firm will behave in a risk-taking manner when the firm is below a specific self-perceived reference point (Bowman, 1980; Fiegenbaum and Thomas, 1988; Singh, 1986; Wiseman and Gomez-Mejia, 1998). Furthermore, the firm's risk-taking attitude is influenced by the reference point (Kahneman and Tversky, 1979), aspiration level (Cyert and March, 1963), or strategic reference points (Fiegenbaum et al., 1996; Shoham and Fiegenbaum, 2002) that it adopts. On the other hand, the second body of research is associated with the threat-rigidity hypothesis (Meschi and Métais, 2015; Ocasio, 1995; Staw et al., 1981; Triana et al., 2013), which suggests that organizations will behave conservatively under threat conditions (D'Aveni, 1989; Fombrun and Ginsberg, 1990; Meschi and Métais, 2015). Staw et al. (1981) asserted that organizations will restrict information processing and constrict control under adverse environmental condition. These two theories predict alternative behavior concerning a firm's facing threat of uncertainty. Interestingly, the literature reports empirical support for each of these theories (Fiegenbaum and Thomas, 1988; Hu et al., 2011; Meschi and Métais, 2015; Palmer et al., 1995).

Furthermore, proposing the perspective of strategic reference points (SRP), Shoham and Fiegenbaum (2002) identified that Staw et al. (1981) and Dutton and Jackson (1987) offered the relationship among threats, references, and risks- "... They hypothesized that when confronted with threat (above the SRP), decision-makers will constrict information flow, become rigid by applying only tested repertoires, and engage in centralized decision-making. In contrast, decision-makers facing an opportunity (below the SRP) will tend to be more open to new information, more flexible and more willing to try new repertoires and to decentralize decision-making (p. 130)". Though SRP can be regarded an integrative theoretical points of view toward prospect theory and threat rigidity hypothesis, the definitions toward threat from SRP and threat rigidity hypothesis, however, differ with each other. Scholars basing on threat rigidity hypothesis identified threat as adverse environmental conditions a firm faces (Staw et al., 1981) whereas SRP regards threats as new issues (above SRP) suggesting a firm is satisfying with the present conditions. In this study, we employ the definition of threat from the argument of threat rigidity hypothesis to propose our hypotheses.

Prospect theory, in its original meaning, dealt with the relationship between risk attitude and the current position of a firm relative to a reference point. However, the threat-rigidity hypotheses were based on the principle that organizations were incapable of dealing with adverse environments. Thus, threat-rigidity is associated with uncertainty and uncontrollability, whereas prospect theory is associated with loss (Ocasio, 1995). This drives us to question whether organizational characteristics have a role in explaining "what are threats or opportunities?" We will emphasize that a firm's internal resources repertoire influences a firm's ability to identify new issues as threats or opportunities and, therefore, impact the firm's risk-taking decisions.

News about Foxconn (TW-2317), which is a major partner with Apple (US-APPL), infusing a great volume of unrelated investment in India¹ ignites us to investigate whether a firm considers its risky investment from the perspective of its growth of performance, risk-taking capabilities, or both. In this paper, we incorporate into our analysis the concept of risk-taking capabilities (Chatterjee and Hambrick, 2011; Miller and Lessard, 2000) built on the basis of a resources-based view of the firm (RBV). Firms are heterogeneous with regard to the different resources they possess, and this endowment influences their strategic choices (Rumelt, 1984; Wernerfelt, 1984; Wilson and Amine, 2009). Organizational actions are influenced by the firms' interpretation of their external environment and their internal organizational context (Chattopadhyay et al., 2001). Therefore, this paper aims to investigate the determinants of a firm's risk-taking behavior by introducing the perspectives of risk-taking capabilities.

The present study tests a sample from publicly listed firms in the electronics industry in Taiwan, and makes three principal contributions to literature and business practitioners. First, risk-taking capabilities can enhance decision-makers' confidence (Chatterjee and Hambrick, 2011) to make risky decisions. Hence, both a firm's past performance status and threat conditions and its risk-taking capabilities should be taken into account, as they and their interaction can influence a firm's risk-taking behavior. Second, the interactive effects of a firm's "domain" (gain or loss) and risk-taking capabilities can settle the theoretical debate between the prospect theory and threat rigidity hypothesis. The condition of "loss" and "few capabilities" implies a status of "nothing to lose", and that of "gain" and "more capabilities" can offer managers' "confidence". Both conditions offer consistent argument of the two theories. Third, following Fiegenbaum et al.'s (1996) proposition that "firms possessing both an internal and external reference point will outperform firms which are predominantly internally or externally focused" (p. 229), firms can make risky decisions more reasonably by taking both internal and external factors affecting risk-taking behavior.

This study is composed of six sections. The first addresses the purpose of the study, followed by a review of theoretical underpinnings and development of the hypotheses. The third section addresses the method used to analyze data from sampled firms in Taiwan. The fourth section explains the results from the empirical tests of the models and discussion of the findings from the empirical tests, and the last section addresses the conclusion and the contribution to research.

¹ <https://www.aruco.com/2015/06/actility-25m-ginkoventures-orange-swisscom-kpn-foxconn>; <http://www.lightreading.com/mobile/devices-smartphones/foxconn-plugs-into-indias-manufacturing-dreams-/d/d-id/717023>; <http://udn.com/news/story/7240/1083178-%E9%B4%BB%E6%B5%B7%E6%94%BB%E5%8D%B0%E5%BA%A6-%E5%BB%BA%E6%95%B8%E6%93%9A%E4%B8%AD%E5%BF%83>.

Download English Version:

<https://daneshyari.com/en/article/1004286>

Download Persian Version:

<https://daneshyari.com/article/1004286>

[Daneshyari.com](https://daneshyari.com)