CHAPTER 5

SUMMARY OF FINDINGS, CONCLUSION AND SCOPE FOR FURTHER STUDY

Based on the insights gained from the literature review, discussion held with Senior Finance Professionals and data analysis of the current study, this chapter begins by answering research questions of the study. The main conclusion of the research is then contextualised in the SID literatures. Implications of the study are given. The chapter concludes by identifying directions for future research.

5.1 SUMMARY OF FINDINGS

The following are the findings of the study:

1. Decision Makers most frequently assess the effect of project risk on corporate overall risk/return, followed by the assessment of risk of each project or project class individually.

2. Companies assess and handle risk in evaluation of SIDs irrespective of its firm specific characteristics.

3. Firm Specific characteristics such as Sales Volatility, Performance Volatility, Beta, Leverage and Firm size do not have a significant relationship with the overall scope of Risk Analysis in SIDs
4. Company size does not have any association in determining the scope of Risk Analysis.

5. Sensitivity analysis is the most formal risk measurement techniques used by the respondents followed by probability distribution.

6. An interesting finding in this study is that respondent companies are using formal risk analysis techniques equally to the subjective/intuitive risk assessment techniques. Further, respondents employed more than one technique either for the same or different projects.

7. Shortening payback period is the most formal risk adjusted methods used by the respondents followed by raising discount rate. There exists a significant differences in the use of risk adjusted methods in SIDs by the sample companies

8. Correlation between the constructs in the sub model 1 was positively significant which indicates that all the independent constructs such as Business Strategy, Information System, Rewards and Control Structure, Environmental Uncertainty, and Performance of a Company have a significant positive relationship with the extent of usage of Risk Analysis in SIDs.


10. Risk Propensity has a significant positive influence on the extent of usage of Risk Analysis in SIDs.
11. Organisational Characteristics and Individual Characteristics have a significant positive influence on the extent of usage of Risk Analysis in SIDs

12. The extent of usage of Risk Analysis of automotive companies in India varies with the types of business strategy adopted by them.

5.2 CONCLUSION

The objective of the study is to know the current risk handling practices and related issues in SIDs in detail from a comprehensive cross-sectional survey with reference to automotive industry in India. The results provide a clear and up-to-date picture of the current practices of Risk Analysis within the automotive industry in India. The relationship between the extent of usage of Risk analysis in SIDs and firm specific characteristics such as firm size, sales volatility, performance volatility, beta, leverage are discussed. The results do not support the influences of firm specific characteristics on the level of Risk Analysis in SIDs. An analysis was performed on the approaches and techniques used to assess the project risk and techniques besides the techniques used to adjust the risk. It was found from the analysis of the data collected for the study that formal and informal methods were used equally by the respondents. It was also learned from the study that Decision Makers relied heavily on sensitivity analysis and probability theory to assess the project risk among the formal methods.

In addition, this study examined the influence of a number of key individual and organisational characteristics on the extent of usage of Risk Analysis in SIDs. To understand the relationship, this study developed and tested a structural model linking Business Strategy, Information System,
Rewards and Control Structure, Environmental Uncertainty, Performance of a Company, select demographics, and Risk Propensity to the extent of usage of Risk Analysis in SIDs. Except the path linking Rewards and Control Structure and Demographics to the extent of usage of Risk Analysis, all other paths linking to the extent of usage of Risk Analysis in SIDs in the model were found to be positively significant. It indicates that except Rewards and Control Structure and demographics, all other characteristics namely Business Strategy, Information System Environmental Uncertainty, Performance of a Company, and Risk Propensity have influence on the extent of usage of Risk Analysis in SIDs. It was further learned from the study that one can predict the extent of usage of Risk Analysis in SIDs by considering the above mentioned variables.

5.3 IMPLICATIONS OF THE STUDY

The findings presented in this thesis clearly have implications for practitioners in the automotive industry and the same has been discussed in this section.

1. This study has provided the reasons to consider different aspects of risk analysis such as impact of non-financial uncertainties, consideration of risk of individual project, effect of the project risk on corporate overall profitability, effect of the project risk on shareholders’ portfolio, relationships among various uncertainty factors, to understand the scope of risk analysis of a project clearly. Companies can use this as a template to modify their own approach towards conducting the scope of Risk Analysis.
2. The extent of usage of risk analysis is higher for companies categorised as prospectors rather than companies categorised as defenders. Therefore, external orientation enables companies to produce better performance.

3. One of the major findings of this study is that organisations can analyse the risks involved in the SIDs accurately only when it is supported by an effective information system in place. This indicates the establishment of effective information system as a prerequisite for accurate risk analysis.

4. Another important of the findings is that there is no existence of relationship between rewards and control structure of a company and its extent of usage of risk analysis. That means differences in the rewards and control structure followed by the companies do not cause differences in their extent of usage of risk analysis.

5. The ability of a company to predict its environment uncertainty determines its extent of usage of risk analysis in SIDs. Thereby the ability of a company to predict its environmental uncertainty becomes another prerequisite in generating positive performance.

6. This study discovers the existence of relationship between the decision makers’ risk propensity and their extent of usage of risk analysis techniques in SIDs.

7. This study may encourage the respondents to re-evaluate and improve their risk handling practices. Further it may encourage non-respondent companies to perform the risk analysis practices in order to improve the performance.
5.4 SCOPE FOR FURTHER STUDY

The researcher believes that the findings of this study can be complemented by further investigation on the following areas:

a. This study can be extended to make comparison among different industries on the risk analysis in the SID context. (inter-industry comparison)

b. Further studies can be carried out to identify the benefits and barriers of adopting sophisticated risk analysis techniques. (benefits of using sophisticated approaches)

c. The influence of methods of forecasting and quality of information on the effectiveness of the risk analysis can be studied. (impact of forecasting accuracy)

d. Whether adopting sophisticated RA techniques improve the performance of the companies or not can be studied (impact organisation performance).

e. Research can be taken up about the influence of organisational and decision makers’ characteristics on the use of risk analysis in manufacturing companies in India and the results can be compared with that of the other countries (inter country comparison).

f. How do different types of investments affect the use of RA? This can be studied (impact of different types of investments)

g. Whether findings from the present studies are useful to refine the theory of capital budgeting system design or not? This can also be studied (refinement of capital budgeting system design)
h. What other firm characteristics such as growth of market share, diversity, etc., influence the extent of usage of RA – can be investigated. (Consideration of unidentified characteristics)

i. What type of information system or reward schemes proves to be the most beneficial, would be valuable to make better SIDs- can be considered for further study (Types of Information System or reward scheme)

j. This can be extended to examine the impact of ownership pattern such as family managed business, professionally managed business on SIDs. (Ownership pattern)