ABSTRACT

Increasing pace of changes in technological and business environment, exchange rate fluctuations, and difficulty in predicting competitors behaviour have made the Strategic Investment Decision making process more acute, thereby often challenging the task of Decision Makers. Very limited studies have covered the risk handling practices and their related problems in detail. The objectives of this study are: to know the level of risk analysis, risk handling techniques and methods adopted for adjusting risk, and to study the influences of individual and organisational characteristics on the extent of usage of Risk Analysis (RA) in Strategic Investment Decisions (SIDs) in Automotive Industry in India.

A model is developed the relationships of individual and organisational characteristics on the extent of usage of Risk Analysis in SIDs are tested. The model encompasses five organisational characteristics namely Business Strategy, Information System, Rewards and Control Structure, Environmental Uncertainty, and Performance of a Company, and three individual characteristics namely tenure, experience and risk propensity. To test the validity of the model, the study has employed Partial Least Squares-Path Modeling to Structural Equation Modeling. This study ensures the construct validity of the measures used in this study. The study has adopted disproportionate stratified random sampling to collect the primary data. Using a structured questionnaire, the primary data has been collected through
comprehensive cross sectional survey conducted among the Senior Finance Professionals.

The secondary data has been collected from Prowess, Centre for Monitoring Indian Economy and Capital line databases. 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 specific firm characteristics such as firm size, sales volatility, performance volatility, beta, and leverage are discussed. The results do not support the influence of firm specific characteristics on the level of Risk Analysis in SIDs. An analysis was performed on the approaches and techniques used to assess a project risk and the techniques used to adjust the risk. An interesting finding of this study is that respondent companies are using formal risk analysis techniques as equally as the subjective/intuitive risk assessment techniques. Further, respondents have employed more than one appraisal technique either for the same or different projects.

Shortening payback period is the most formal risk adjusted methods used by the respondents followed by raising discount rate. It is also learnt from the study that Decision Makers relied heavily on sensitivity analysis and probability theory to assess the project risk among the formal methods. The path linking Organisational Characteristics (OC), Individual Characteristics (IC) to the extent of usage of Risk Analysis in the model was found to be positively significant. It indicates that using these constructs, namely Organisational Characteristics and Individual Characteristics, one can predict the extent of usage of Risk Analysis in SIDs.