Can Risk Taking Strategies Lead To Survival of Manufacturing Firms Operating in an Economic Crisis? Lesson from the Zimbabwean Economic Crisis

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Abstract: **Firms may use several strategies to survive in periods of economic crisis. The effectiveness of these strategies however varies with the nature and scope of the economic crisis. The purpose of this study was to examine the influence of the risk-taking strategies on the performance of manufacturing firms during the period of the economic crisis in Zimbabwe. In addition, the study examined how the risk-taking strategies influenced profitability and growth of manufacturing firms during the period of the economic crisis. Data was collected from 86 manufacturing firms that exercised risk taking strategies to survive. The study used a survey data collection method based on the positivism research philosophy. The study revealed that while risk taking strategies may be effective in some economic crisis context, they all proved to be less effective in improving performance in periods of economic crisis experienced in the Zimbabwean context. The study indicated that firms that take on high risk business operations and ventures in periods of economic crisis experience negative profit margins and negative growth. It was noted that the adoption of limited conservative approach in major business decisions in periods of economic crisis leads to negative profit margins and negative growth. The study noted that firms that the adoption of new projects without due diligence in terms of the return and sustainability of such projects in periods of economic crisis will lead to negative profit margins and negative growth. Firms that make use of new and less "tried and tested production, marketing and operations experience negative profit margins and negative growth in periods of economic crisis. The study recommends that firms must not use risk taking strategies to survive in economic crisis like the one experienced in Zimbabwe from 1996 to 2014. In addition, where firms decided to use risk taking strategies to survive in economic crisis, it is recommended that that adopt risk management approaches. It is also recommended that manufacturing firms operating in economic crisis must use other strategies which are analysis oriented to reduce exposure of their firms to risks. Firms may also adopt other strategies that pro-active, defensive, or innovative oriented.**

***Key terms*: Risk taking strategies, economic crisis, performance, manufacturing firms**

I. INTRODUCTION

The Zimbabwean economic crisis started around the 1990s and has persisted to date. The economic crisis has led to a 52% decline in Zimbabwe's GDP prolonged periods of hyperinflation. The crises have led to massive deindustrialisation and widespread informalisation of the economy. The economic has experienced a significant collapse in savings and investment rates. Huge fiscal deficits have led to growth of the international debt which has fallen into arrears over a prolonged period. Poor revenue streams have contributed to poor service delivery, dilapidated infrastructure poor health and education services.

These negative economic fundamentals had a devastating effect on all the sector of the economy. The manufacturing sector was also negatively affected by the economic crisis. Zimbabwe had a well-developed manufacturing sector in sub-Saharan Africa up to the late 1990s (Nyoni and Mago 2020; Dube, & Chipumho, 2016). The manufacturing has traditionally been a key driver of economic growth, GDP, export revenue and employment. The manufacturing sector produced diversified products ranging from foodstuffs to steel products for both local and international requirements (Kanyenze et al. 2011). The economic crisis however led to significant reduction in the sector's contribution to GD, deindustrialisation, reduction in capacity utilisation and a fall in export revenues from the manufacturing sector (Kanyenze et al. 2011; Nyoni,2019; Nyoni and Mago 2020). Consisting of ten sub-sectors, the manufacturing sector has struggled to survive with several companies having closed down since 1996. Although the manufacturing sector has experienced a general decline in its performance, there are significant, variations in the performance of firms in each of the ten sub-sectors (Nyoni, 2019). This may be an indication that the nature of strategies and sub-sector characteristics may be contributing to performance variations of firms operating in the same economic crisis. According to Nyoni (2019) firms in different manufacturing sub-sector exercised different strategies during the economic crisis. In view of this observation, it is therefore important to establish if risk taking strategies may lead to survival of firms in the manufacturing sector. It may also be critical to establish how the various dimensions of the risk-taking strategies influenced performance of manufacturing firms during the period of an economic crisis.

II. LITERATURE REVIEW

According to Hadziahmetovic, Halebic and Colakovic–Prguda (2018), economic crisis is a period of significant negative economic development of a country. It can cover one or more economies, one economic branch all over the world, or whole world economy. It is thus a period in which all key economic indication is on the decline. Economic crisis has always presented a great challenge for the global economies, continental economic and national economies (Hadziahmetovic et al. 2018). The impact of economic crisis is multidisciplinary in nature because it has economic, political, and social implications. Economic crises present the greatest challenge of mankind in that they damage economies, industries, social life and may lead to political instability (Dandira 2012, Nyoni and Mago, 2020). Industries have struggled to survive and periods in periods of economic crisis. Companies have closed across the globe in periods of economic crisis. De-industrialisation has been one of the greatest negative effect of economic crisis especially in developing countries.

Companies have used various strategies to survive and remain sustainable in periods of economic crisis (Nyoni and Mago 2020). Strategies adopted have varied in line with the nature of the economic crisis, size of the company and the business environment. Risk taking strategies in periods of economic crisis have been recommended in the existing literature on strategies and performance.

2.1 Risk taking strategies

Risk taking strategies refers to the firm' strong orientation towards risk taking to maximise on higher return which are associated with riskiness in decision-making. Risk taking strategies implies that firms are willing to take risks and hence they assign resources to ventures and operations where the return is uncertain and not guaranteed on the hope that taking a greater risk will lead to higher returns. Risk-taking strategies may also involve venturing into the unknown and heavy borrowing to invest in business operations (Ranjan 2017, Baird and Thomas, 1985, Dandira 2012).

The relationship between risk taking strategies and performance of firms has attracted a lot of resrach in the fields of business managements, economics, and finance. Several research studies and papers have argued that there is a positive relationship between risk taking strategies and performance of firms (Ranjan 2017). According to Ranjan (2017), the adoption of the risk-taking strategies is based on the Prospect Theory framework of Kahneman and Tversky (1979). The theory argues that firms and their managers who are operating below their expected levels of capacity utilisation and performance target (i.e., the reference point, represented by group median returns) are risk-takers and hence will adopt risk taking strategies. The behaviour of managers in such firms is guided or motivated by the positive risk–return relationship. Economic crisis leads to a significant decline in return, profitability, and market share of most companies and this stimulate such firm to adopt risk taking strategies based on their perception of a positive risk-return relationship (Ranjan 2017). This implies that when firms perceive their business environment as risk, threatening and challenging, they adopt risk taking strategies.

Scholars such as Ranjan (2017) and Arisi-Nwugballa, Elom & Onyeizugbe (2016) have however argued that the relationship between risk-oriented strategies and performance of firms is negative. Ranjan (2017) and Arshad, Rasli, Arshad & Zain (2013). Argued that the risk-return relationship has varied with the nature of companies, size of companies, the business environment, and other variables and hence it is possible that the adoption of risk-oriented strategies may lead to negative performance. This has given rise to the risk-return paradox.

Studies by Schepers, Voordeckers, Steijvers, & Laveren (2014) and Nyoni (2019) have shown that the risk-performance relationship may be positive or negative because it is affected by several variables.

Therefore, while some scholars have argued for a positive risk-oriented strategies and performance, other scholars have indicated that the risk-oriented strategies and performance relationship is negative while others argue that the relationship in indeterminate. In view of these contradictory views on the risk-performance relationship, this study tests the validity of the views using data from manufacturing firms that operated in economic crisis business environment. This is meant to determine if risk taking strategies may enhance survival and viability of firms in economic crisis.

Ogbari et al. (2018), Basu and Gupta (2014) and Steven & Olubusayo (2016) argue that the riskiness-oriented strategies is reflected in firms' increased willingness to take up chances and face risks. The risk-taking strategies encourages firms to enter new markets, follow new trends and develop and apply new technology (Miller & Friesen 1986). This means that decisions such as resource allocation, the choice of products and markets, operations and the choice of projects are therefore guided by the positive risk-return relationship. This means that the higher the risks in the business environment the greater the motives to adopt risk taking strategies because they are assumed to be more effective in improving performance and return.

2.2 Dimensions of risk-oriented strategies

Risk oriented strategies may be measured through five dimensions such as

a. The basis of all decision making
b. The basis of decision on new projects

c. The extent to which certainty influences investment and operations decisions
d. The extent to which operations are guided by "tried and true" paths
e. The overall classification of the firms' operations (high, moderate, and low risk)

(Nyoni, 2019)

Firms that fail to take a conservative approach in decision making are assumed to more oriented towards risk taking strategies. Such firms are more concerned with return associated with their decision-making process. Firms that are more guided by the return from new projects and new investment are more inclined to risk oriented strategies. Firms that adopt operations and investment decision in circumstances of uncertainty are oriented towards risk taking strategies. Firms that invest and venture into new areas in which no other operators have tried are also guided by the risk-taking strategic orientation. It may therefore be critical to determine how these dimensions of risk-oriented strategies influence performance dimensions of firms during the period of an economic crisis.

III. PERFORMANCE OF FIRMS

According to Ondoro (2015) firms measure organisational performance to achieve several objectives such as make investment decisions, set realistic goals, identify improvement opportunities, and develop action plans. To achieve all these performance measurements, firms need to measure both financial and non-financial dimensions of performance. This means that research studies on performance of firms must also make use of both financial and non-financial measures.

According to Santos & Brito (2012), financial measures of performance include (a) profitability, (b) market value and (c) growth. Non-financial measures of performance include the quality of products, customer satisfaction indices, employee satisfaction indices, new products development, efficiency, and market share (Yuliansyah & Razimi 2015).

Several research studies have used profitability and growth as measures of performance of firms in economic crisis (Nyoni 2019). This paper used profitability and growth as measures of firm's performance.

IV. METHODOLOGY

The study used a structured questionnaire to collect data from a sample of 86 firms from the ten subsectors of the manufacturing sector that adopted the risk-oriented strategies during the period of the economic crisis. The firms were identified in a study carried by Nyoni (2019). Correlation analysis was used to determine the relationship between risk-oriented strategies and performance of manufacturing firms during the period of the economic crisis.

V. RESULTS

Table 1 Shows correlation between the risk-oriented strategy and performance of manufacturing firms. Table 2 shows the correlation between dimensions of risk-oriented strategy and performance dimensions based on the data collected using a structured questionnaire.

Table 1 Correlation coefficient value between risk-oriented strategy and performance

Strategy	Performance
Risk oriented strategy	-0.81

The results in table 1 show that the correlation between risk orientated strategy and performance is -0.81. This shows that there was a strong and negative relationship between risk-oriented strategy and performance of the manufacturing firms during the period of the economic crisis. This also shows that the firms that exercised risk taking strategies experienced a decline in their performance. The next table provides further depth on the influence of risk-taking strategies on performance by showing the influence of each of the five dimensions of the risk-taking strategy on the dimensions of performance.

Table 2 Correlation coefficient value between the dimensions of risk-oriented strategy and performance dimensions

Dimensions of the risk-oriented strategy	Performance dimensions	
	Profitability dimension	Growth dimension
Emphasis on high-risk operation	-0.78	-0.79
Limited conservative approach in major decisions	-0.83	-0.80
Limited analysis on new projects	-0.82	-0.77
Support to projects irrespective of certainty in expected returns	-0.84	-0.81
Operations adopt new and less "tried and tested approaches	-0.83	-0.81

The result in table 2 shows that the relationship between an emphasis on adopting risk operations and profitability was strong and negative. The results also indicate a negative and strong relationship between risk operations and profitability. This implies that manufacturing firms that adopted risky operations and risk opportunities from the business environment experienced a significant decline in their profitability and growth.

The results in table 2 indicate that there was a very strong and negative relationship between a less conservative approach to decision making and profitability. The results also indicate a very strong and negative relationship between a less conservative approach to decision making and growth of firms during the period of the economic crisis. This means that firms that were less conservative in their decision making experienced a decline in their profitability and growth.

The study has shown that there is a very strong and negative relationship between low level of analysis to all new business opportunities and profitability. Table 2 also shows that there is strong and negative relationship between low level of analysis to all new business opportunities and growth. This implies that firms that firms that do not apportion effort and time on a thorough analysis of all new opportunities will experience a decline in both profitability and growth.

According to table 2 the adoption of new projects even in circumstances of uncertainty has a very strong and negative relationship with profitability. The result also shows that the tendency to just proceed to take up new projects with uncertain return has a strong and negative relationship with growth. This implies that adopting new projects with uncertain return or where the return is not guaranteed will leads to profitability and growth decline.

The results in table 2 indicate a strong and negative relationship between the use of new and less "tried and tested approaches and profitability. There is also a strong and negative relationship between new and less "tried and tested approaches and growth of firms operating in economic crisis. This implies that when firms adopt approaches that are novel and that have not been tried and tested, they risk a decline in their profitability and growth.

The results in table 1 and 2 shows that firms that adopt risk-oriented strategies or their dimensions will experience a decline in their performance in periods of an economic crisis. This means that there is a strong and negative relationship between the risk-taking strategies and performance of manufacturing firms in economic crisis.

VI. DISCUSSION

The study noted that all the risk taking strategies led to negative performance of firms and this finding is in-line with the views raised some scholars such as Suwachananont and Apibunyopas (2016), Opoku & Li (2018) and Ranjan (2017) who all indicated that there is a negative and significant relationship between risk taking strategies and profitability. According to Sternad (2012), Obeidat (2016) Juha, Kaisu, Helena, Pasi (2012) and Nyoni (2019) the adoption of risk-taking strategies such as taking on risk operations where the return on them is not guaranteed leads to negative profitability and growth. This is because such as risk-taking strategy leads to misallocation of resources and may not be efficient enough to generate positive profits. Investing firm resources in operation and ventures where the return is not certain usually leads to significant loss pf resources. Failure to undertake risk management or to be conservative in decision making leads to losses and closure of companies due to negative profitability. The challenge in the business environment requires that firms evaluate all relevant business and regulatory risks and controls and monitor mitigation actions in a structured manner. Failure to undertake risk management in periods of economic crisis led to loses, inefficiencies, wastages, negative profitability, and negative growth (Dandira 2012). Companies that fail to be more risk averse, to systemically identify, measure, prioritise and respond to all types of risk in the business, expose companies to threats and may lead to losses and negative profitability. This shows that the negative relationship between risk taking strategies and performance noted in this study supports the existing body of literature which also alluded to the fact that risk taking strategies are not effective in improving the performance of firms especially in economic crisis environment where the level of risks and challenges is highly entrenched (Nyoni 2019, Ranjan 2017).

VII. CONCLUSIONS

The paper can conclude that the adoption of riskiness taking strategies will not always lead to positive return as argued by the Prospect Theory framework. The study has shown that riskiness taking strategies may not help firms in economic crisis to survive because the strategies may lead to a significant decline in profit margin and growth. It is concluded that risk taking strategies such as selecting to put financials resources in projects that are very risky, being less conservative when making business decisions, limited analysis, and application of due diligence on all new projects, starting on new projects where the expected return is not guaranteed and limited use and application of tried and tested approaches and methods.

VIII. RECOMMENDATIONS

In view of the negative relationship between risk taking strategies and performance of manufacturing firms operating in economic crisis, this paper recommends that manufacturing firms must develop and adopt risk mitigation and risk minimisation strategies. Companies must invest significant amounts of resources to evaluate risk and implement control systems with great scrutiny. There is need for companies to put more resources in the identification, management, and control of risks to achieve success and survival even in economic crisis. The paper recommends that in view of the negative influence of the risk-taking strategies, firms need to establish policies, processes, competencies, reporting, technology, and a set of rules for risk management. It is critical for firms to avoid being risk takers but should drive to up risk evaluation organizational structures that allows the company to manage their risks, and to determine which risks should be taken and which ones should be avoided. It is also recommended that instead of exposing firms to risks in economic crisis, managers of manufacturing firms may need to adopt other strategies that are analytical, pro-active, and innovative and conservative orientated.

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