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Enterprise Risk Taking: A Systematic Literature Review Based on Francis and Holloway's Method

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Abstract

Enterprise Risk Taking (ERT) is a critical aspect of corporate strategy that influences organizational growth, innovation and competitiveness. This study systematically examines the factors influencing Enterprise Risk Taking (ERT) using Francis and Holloway's Literature Review methodology. This paper synthesizes findings from recent literature on the internal and external determinants of ERT. The review categorizes these factors to elucidate the complex interactions impacting corporate risk-taking behaviors. Results indicate that a firm's risk appetite is significantly shaped by both structural and environmental variables, with internal governance and managerial perspectives playing crucial roles. Additionally, external market conditions and regulatory constraints are found to moderate ERT in response to economic fluctuations and industry volatility. This review contributes to the literature on ERT by offering insights for policymakers and corporate leaders to develop effective risk management strategies tailored to their specific contexts, adaptable risk management strategies tailored to dynamic business environments.

Keywords
Enterprise Risk Taking, Corporate Governance, Risk Management

1. Introduction

Enterprise Risk Taking (ERT) merupakan salah satu aspek strategis dalam manajemen perusahaan yang memiliki implikasi luas terhadap pertumbuhan, inovasi, dan daya saing perusahaan. ERT merujuk pada keputusan perusahaan untuk mengambil risiko dengan harapan memperoleh keuntungan yang lebih tinggi, yang sering kali terkait dengan investasi pada proyek baru, ekspansi pasar, atau pengembangan produk inovatif (John et al., 2008). Perusahaan yang mampu mengelola risiko dengan baik dapat meningkatkan kinerjanya, sementara pengambilan risiko yang berlebihan atau tidak terukur dapat membawa dampak negatif, termasuk kerugian finansial dan reputasi (Faccio et al., 2011).

Penelitian terdahulu menunjukkan bahwa faktor-faktor internal, seperti struktur kepemimpinan dan budaya perusahaan, memainkan peran penting dalam menentukan seberapa besar risiko yang bersedia diambil perusahaan (Paligorova, 2010). Misalnya, perusahaan dengan kepemimpinan yang visioner dan sistem tata kelola yang kuat cenderung lebih berani dalam mengambil risiko yang strategis (Jensen, 1986; Syahzad et al., 2019). Di sisi lain, faktor-faktor eksternal seperti kondisi ekonomi makro, ketidakpastian pasar, dan kebijakan pemerintah juga mempengaruhi ERT, dengan bukti empiris menunjukkan bahwa perubahan dalam kebijakan moneter dan regulasi dapat mengubah profil risiko perusahaan (Boubakri & Saffar, 2016). Menghadapi lingkungan internasional yang semakin kompleks saat ini dan lingkungan persaingan yang sangat dinamis, perusahaan perlu terus meningkatkan kemampuan beradaptasi strategis mereka, melakukan penyesuaian dan transformasi strategis secara tepat waktu, dan meningkatkan tingkat pengambilan risiko mereka sendiri untuk meningkatkan kemampuan dan efisiensi inovatif mereka, sehingga dapat mencapai keberlanjutan perusahaan dalam lingkungan yang sangat kompetitif (Li et al., 2021).

Namun, terdapat tantangan dalam menyatukan berbagai hasil penelitian ini, karena pendekatan metodologis dan konteks penelitian yang bervariasi menyebabkan inkonsistensi dalam temuan. Oleh karena itu, diperlukan kajian literatur sistematis yang terstruktur untuk memberikan sintesis yang lebih komprehensif. Pendekatan systematic literature review (SLR) menggunakan metode Francis and Holloway (2007) memungkinkan penyusunan kerangka kerja yang jelas untuk menganalisis dan mengintegrasikan temuan dari berbagai studi, sehingga dapat mengisi kesenjangan dalam literatur dan menyediakan panduan yang lebih kuat bagi praktik manajerial dan teori manajemen risiko.

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1.1 Objectives

This study aims to identify and analyze the critical factors affecting Enterprise Risk Taking (ERT) from both internal and external perspectives, while also providing practical implications for policymakers and corporate leaders. By doing so, this research enhances the current literature on the determinants of risk-taking in firms and offers insights for developing effective risk management strategies.

2. Methods

Francis and Holloway's Literature Review method is a systematic approach aimed at comprehensively reviewing the literature within a specific field of study. This method is structured to ensure that the literature review is conducted in a thorough, transparent and organized manner, resulting in a reliable and insightful analysis. It provides a systematic framework for identifying, selecting and synthesizing literature related to the factors influencing Enterprise Risk Taking (ERT), facilitating a comprehensive evaluation of prior research for a deeper understanding (Francis & Holloway, 2007). According to Tranfield et al. (2003), a systematic literature review (SLR) seeks to minimize selection bias and enhance the rigor of literature analysis. This method encompasses the identification, selection, analysis and synthesis of data from various reputable sources, including scientific journals, conference proceedings and other academic publications. Francis and Holloway's (2007) approach outlines specific stages for conducting an SLR, which are essential for effective implementation:

2.1 Literature Search

The initial stage involved a comprehensive search using databases such as Scopus & Emerald. The search was conducted with specific keywords related to ERT, such as “corporate risk-taking,” “governance and risk,” and “risk behavior in firms”.

2.2 Study Selection

The selection process involved identifying studies that met the inclusion and exclusion criteria. Studies published in the last 10 years (2014-2024) were the main focus to ensure that the data analyzed were the most relevant and up-to-date.

2.3 Data Analysis

Selected articles were qualitatively analyzed to identify key themes and factors influencing ERT.

2.4 Synthesis of Findings

Findings were analyzed and synthesized to form a thorough understanding of the factors influencing ERT, as well as identify any remaining research gaps (Booth et al., 2016).

3. Result

According to philosophical principles, both internal and external factors influence all phenomena, including enterprise risk-taking. Extensive research has explored the determinants of enterprise risk-taking. This paper focuses on categorizing these determinants into internal (enterprise-level) factors and external (environmental) factors.

3.1 Internal Factors of the Enterprise

Early research on risk-taking often focused on the ownership structure, performance growth, industry classification and type of enterprise. More recent studies have primarily examined the agency problem resulting from the separation between ownership and managerial control, with a particular emphasis on strategies to mitigate the risk aversion exhibited by managers due to this issue. These analyses frequently approach the topic from the angles of corporate governance and managerial traits. This paper consolidates the enterprise-level influencing factors into three main aspects: fundamental enterprise characteristics, corporate governance and managerial characteristics.

a. Fundamental Enterprise Characteristics

Different with other types of enterprises, family-owned businesses often prioritize wealth transfer to future generations, which leads to a tendency to avoid risk (Anderson et al., 2003; Su and Lee, 2013). However, differing perspectives exist. Nguyen (2011), using a sample of Japanese firms, found that family enterprises are motivated to enhance firm value, which encourages risk-taking behavior. Lee (2018), in a study of Korean enterprises, discovered a non-linear, U-shaped relationship between family ownership and risk-taking: when family ownership is low, risk-taking decreases, but as the ownership share increases, the firm is more inclined to invest in higher-risk projects. Boubakri (2013) found that, in contrast to private firms, state-owned enterprises are more susceptible to government intervention and often make decisions influenced by political objectives, leading to more stable, low-risk investments. Further analysis revealed that the risk levels in state-owned enterprises rose

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significantly post-privatization (Boubakri et al., 2013; Yu Minggui et al., 2013). Habib and Hasan (2017) observed that enterprises at different life cycle stages exhibit varying levels of risk-taking. Enterprises in their development and decline stages are more inclined toward higher risk-taking. This occurs because, during the development phase, firms invest more to fend off competitors and secure market positions, while in the decline phase, they engage in riskier projects in hopes of reversing negative trends. Conversely, during the growth and maturity stages, operations are more stable, involving moderate investments and lower risk levels.

Then, research by Boubakri and Saffar (2016) indicate that a corporate culture that encourages innovation and experimentation is likely to enhance Enterprise Risk Taking (ERT). Their findings suggest that companies with a flexible culture are more adept at navigating market uncertainty through adaptive strategies.

b. Corporate Strategy

Corporate strategy has a significant impact on risk-taking behaviors within a company. The level of corporate risk-taking indicates both the appetite for risk and the degree of risk management (Li & Tang, 2010; Yan et al., 2021). The uncertainty inherent in high-level strategic decisions presents challenges for Enterprise Risk Management. Research indicates that macro-organizational factors have a significant impact on firm-level risk-taking, affecting both the scale and profitability of these risks (Bromiley and Rau, 2010). If fundamental strategic decisions exert a strong influence on risk at the firm level, then risk management initiatives implemented at lower organizational levels may prove to be of limited effectiveness (Philip et al., 2014). Elevated levels of risk-taking can unlock a company's potential and contribute to securing long-term competitive advantages. As corporate strategy guides the trajectory of business operations, it can greatly influence risk-taking behaviors (Akbar et al., 2017). Higher-order theory suggests that the personal traits of management play a crucial role in shaping corporate risk-taking (Faccio et al., 2016). Since corporate strategy is primarily developed and executed by top management (such as chairpersons and CEOs), it partially reflects the strategic risk preferences of these leaders (mart., 2023). Research supports the notion that corporate strategy significantly affects corporate risk-taking (Habib & Hasan, 2017; Syahzad et al., 2019). To achieve competitive advantages, managers may adopt proactive business practices, including investments in high-risk, high-reward projects, product innovation, market expansion and pursuing strategies that avoid merely replicating competitors' innovations (Arundel, 2017). These actions inherently raise a company's investment risk and enhance its level of risk-taking. On the other hand, companies with a conservative strategy focus on sustaining their current market position, emphasizing product service, operational efficiency and stable performance growth. Such companies typically opt for low-risk projects that ensure consistent income and manageable risk levels, thereby reducing overall corporate risk-taking.

c. Corporate Governance

For non-state-owned enterprises, it is necessary to continuously improve corporate governance, reduce agency problems and moral hazards in the process of innovation investment, improve corporate risk-taking levels and then enhance innovation performance (Li et al., 2021). At the same time, managers should fully consider the differences between the external institutional environment and corporate strategic style when making corporate strategy choices and improve innovation performance through the appropriate matching of corporate strategic styles and corporate risk-taking levels. Lessons from the COVID-19 pandemic regarding strategic flexibility have important implications for the research conclusions of this paper. The COVID-19 crisis is a major challenge for all companies and they have suffered losses of varying degrees. In the face of the fierce and turbulent external environment, enterprise managers should maintain strategic flexibility to improve their ability to deal with unknown risks and continuously improve their innovation capabilities through active participation.

d. Managerial Characteristics

To navigate a competitive and volatile external environment, enterprise managers should maintain strategic flexibility to better handle unforeseen risks and enhance their innovation capabilities through active participation (Li et al., 2021). Firms that take on higher levels of risk often exhibit stronger dynamic capabilities to manage environmental uncertainty (Yan et al., 2021), which can increase managers' tolerance for failure, reduce anxiety, mitigate agency issues and foster a willingness to embrace risk. This encourages independent innovation decisions and boosts innovation performance through greater investment in R&D. From the perspective of information asymmetry, corporate risk-taking can signal positive prospects to the market, thereby enhancing company value (Arundel, 2017; Wang., 2023). Consequently, risk-taking firms are more likely to disclose important information, helping investors understand managerial behavior and reducing agency problems (Wang., 2023). Moreover, higher risk-taking levels reflect a stronger trust between shareholders and managers (Imhof et al., 2014; Garcia et al., 2015), which can empower management to focus on long-term strategic investments, ultimately improving

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innovation performance. Additionally, risk-taking firms may be more efficient in utilizing information, enabling timely responses to external changes and enhancing adaptability.

3.2 External Environmental Factors

This paper summarizes the external environmental factors influencing Enterprise Risk Taking (ERT) from three key perspectives: the macroeconomic environment, government regulations and policies also the market environment and competition.

a. Macroeconomic Environment

Almeida et al. (2020) highlight that economic uncertainty influences Enterprise Risk Taking (ERT), indicating that companies are likely to adopt more conservative strategies during economic downturns. This observation aligns with the research conducted by Gormley et al. (2013), which reveals that the global financial crisis significantly altered corporate risk profiles. The research by Almeida et al. suggests that during times of economic uncertainty, such as recessions, companies often become more cautious in their risk-taking behaviors. This conservatism may manifest as a reluctance to invest in new projects or pursue aggressive growth strategies, as firms aim to protect their assets and ensure stability. Similarly, Gormley et al. point out that the global financial crisis had profound effects on how companies manage risk, leading to shifts in their risk profiles. As a result of the crisis, many firms re-evaluated their risk appetites and strategies, often resulting in reduced levels of risk-taking to safeguard against potential losses. Together, these studies illustrate the significant impact of economic conditions on corporate risk management practices.

b. Government Regulations and Policies

Laeven and Levine (2009) found that firms located in countries with stringent financial regulations are more likely to implement conservative risk strategies. In contrast, research by Cumming et al. (2016) indicates that restrictive monetary policies can hinder Enterprise Risk Taking (ERT) in specific industries. The findings from Laeven and Levine suggest that when financial regulations are rigorous, companies often become more cautious in their risk-taking behaviors. This conservatism may stem from the need to comply with regulatory requirements and avoid potential penalties, leading firms to prioritize stability over aggressive growth. On the other hand, Cumming et al. highlight that tight monetary policy, which typically involves higher interest rates and reduced money supply, can negatively affect ERT in certain sectors. In industries that are sensitive to borrowing costs or reliant on credit for investment, restrictive monetary policies can deter firms from engaging in risky ventures or making bold investments. Collectively, these studies underscore how regulatory environments and monetary conditions play a crucial role in shaping corporate risk-taking behavior.

c. Market Environment and Competition

The research conducted by Bhagat et al. (2015) demonstrates that heightened market competition compels companies to enhance their Enterprise Risk Taking (ERT) to preserve their competitive edge. In contrast, Hoskisson et al. (2017) highlight that firms in industries characterized by significant volatility tend to exhibit greater flexibility in their risk-related decision-making. The findings from Bhagat et al., (2015) suggest that in highly competitive markets, companies may adopt more aggressive risk-taking strategies to differentiate themselves from rivals and sustain their market position. This might involve investing in innovative projects, exploring new markets, or enhancing existing products. On the other hand, Hoskisson et al., (2017) point out that firms in volatile industries, where market conditions can change rapidly and unpredictably, are likely to be more adaptable in their approach to risk. This flexibility allows them to respond quickly to emerging opportunities or threats, thereby enabling more effective decision-making under uncertainty. Together, these studies underscore the importance of external competitive dynamics in shaping firms' risk-taking behaviors.

4. Discussion

In the context of an increasingly interconnected and volatile global economy, enterprises are compelled to navigate a multifaceted landscape of risks that can significantly influence their strategic trajectories and operational sustainability. Enterprise risk-taking, which encapsulates the propensity of organizations to engage in uncertain ventures with the potential for substantial rewards, is shaped by an interplay of internal and external determinants. This article seeks to elucidate the intricate interconnections between internal organizational factors such as corporate culture, governance mechanisms and managerial perspectives and external influences, including the prevailing market environment, competitive dynamics and regulatory frameworks. By examining the impact of market conditions and competitive forces on enterprise risk-taking, we aim to illuminate the mechanisms through which these elements

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inform strategic risk decisions. Particularly within the Indonesian context, where enterprises face distinct socio-economic conditions and emerging market characteristics, understanding these influences is paramount. hrough this comprehensive analysis, the article aspires to contribute to the existing discourse on enterprise risk management, providing valuable insights for scholars, practitioners and policymakers engaged in this vital field.

4.1 Interconnections of Internal and External Influences

Research by Zahra et al. (2021) indicates that internal and external factors interact in complex ways to influence Enterprise Risk Taking (ERT). For instance, a robust governance structure can help alleviate the adverse effects of external uncertainties, enabling firms to maintain their risk-taking behaviors even in volatile market environments. Additionally, Lins et al. (2017) found that global connections and access to external financial resources significantly enhance firms' capacity to engage in higher levels of risk-taking, particularly on a multinational scale. The study by Zahra et al. emphasizes the importance of a well-established governance framework within companies. Such structures can provide the necessary oversight and strategic direction that help firms navigate external uncertainties like economic fluctuations or regulatory changes allowing them to remain resilient and continue pursuing innovative or risky ventures in challenging market conditions. In parallel, Lins et al. highlight the role of global networks and financial resources in facilitating risk-taking. Firms that are well-connected internationally and have access to diverse financial sources are better positioned to undertake significant risks, as they can leverage these resources to support ambitious projects and investments. Together, these studies illustrate the multifaceted nature of ERT, where internal governance and external affiliations work in tandem to shape a firm's risk-taking decisions.

4.2 The Impact of Market Environment and Competition on Enterprise Risk Taking

The impact of market environment and competition on enterprise risk-taking is significant, as it plays a crucial role in shaping a firm's strategic decisions. The market environment includes various external factors, such as economic conditions, regulations and technological changes, which affect how willing a company is to take risks. In dynamic and uncertain markets, companies often feel compelled to take calculated risks to drive innovation and seize new opportunities. On the other hand, strong competition can push firms to engage in riskier strategies to maintain or improve their competitive edge, resulting in increased investments in research and development or aggressive marketing tactics. In less competitive environments, however, firms may prefer a more cautious approach to risk-taking, focusing on stability and efficiency rather than aggressive growth. The relationship between market conditions, competition and risk-taking is influenced by the decision-making processes within the firm, where leadership styles, organizational culture and internal policies play important roles in shaping how risks are perceived. In additional, effective risk management frameworks are vital for helping firms navigate competitive environments, as they allow for systematic evaluations of potential risks and rewards, leading to informed decisions that align with the company's risk appetite and strategic goals.

4.3 The Countermeasures to Improve the Level of Enterprise Risk Based on Indonesian Conditions

Improving the level of enterprise risk management in Indonesia necessitates a multifaceted approach that takes into account the unique socio-economic and cultural conditions of the country. Effective countermeasures include the enhancement of regulatory frameworks, which can provide clearer guidelines for risk assessment and management. Strengthening the education and training of risk management professionals is crucial, as it fosters a culture of risk awareness within organizations (Buntaran & Sabir, 2023). Additionally, integrating technology such as data analytics and artificial intelligence can significantly aid in identifying and mitigating risks in real-time. Establishing a collaborative environment among stakeholders, including government bodies, businesses and academic institutions, can promote knowledge sharing and the development of best practices tailored to local contexts. Furthermore, fostering transparency and accountability in corporate governance can enhance trust and encourage proactive risk management strategies. Overall, these countermeasures, rooted in Indonesia's specific challenges and opportunities, can significantly improve enterprise risk levels and contribute to sustainable business practices.

4.4 The Research on Subject of Enterprise Risk Bearing

The recents studiy highlights the increasing importance of understanding how enterprises in Indonesia navigate and manage risks in a dynamic economic landscape. As Indonesia's economy continues to grow and integrate into the global market, businesses face unique challenges, including regulatory changes, market volatility and environmental

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factors. Recent studies emphasize the need for a robust framework to analyze enterprise risk-bearing capabilities, focusing on both qualitative and quantitative aspects of risk management. For instance, a study by Dwyer et al. (2020) explores the interplay between organizational culture and risk management practices, illustrating how a strong risk culture can enhance an organization's resilience and adaptability. Additionally, research conducted by Lestari et al. (2021) provides insights into the specific risks faced by Indonesian enterprises, such as political and economic uncertainties and suggests strategies for effective risk mitigation. Together, these studies underscore the necessity for comprehensive research in the field of enterprise risk bearing, aiming to develop tailored approaches that cater to the unique context of Indonesian businesses.

The current literature reveals several gaps that warrant further investigation. One notable gap is the impact of cultural differences across countries on risk-taking behaviors (Hofstede, 2019). Additionally, there is a need for more research examining how technology influences patterns of Enterprise Risk Taking (ERT) (Martínez-Solano & Pérez, 2022). As businesses increasingly integrate digital tools and data analytics into their operations, understanding how these technologies modify risk-taking behaviors is crucial. For example, innovations in artificial intelligence and machine learning could alter decision-making processes related to risk by providing enhanced data insights, thereby affecting the overall risk appetite of firms. Addressing these gaps in research could lead to a more comprehensive understanding of the factors influencing ERT in today's dynamic business environment.

5. Conclusion

This study underscores that Enterprise Risk Taking (ERT) is shaped by a complex interplay of internal and external factors, each influencing corporate decisions and strategies. Internally, ERT is determined by corporate governance structures, managerial characteristics and firm-level strategies. Effective governance frameworks and proactive leadership are key in promoting adaptive risk-taking aligned with a firm's strategic goals. Externally, economic conditions, regulatory policies and competitive pressures significantly impact ERT, especially in volatile markets where adaptive strategies are vital.

The paper highlights the critical role of flexible corporate cultures and strategic governance in enabling firms to navigate regulatory and market uncertainties. By reinforcing governance structures and fostering risk-tolerant managerial approaches, companies can optimize their risk profiles and improve innovation and growth potential. This is especially relevant in emerging economies like Indonesia, where firms face unique socio-economic challenges. Enhancing regulatory clarity, advancing risk management education and leveraging technology are essential for improving ERT. This paper contributes valuable insights for both scholars and practitioners, highlighting the need for a balanced approach to risk management that considers both internal capabilities and external pressures.

For future research, this study identifies the need to explore the influence of cultural differences on ERT and the potential impact of emerging technologies such as AI and data analytics on corporate risk behaviors. Addressing these gaps will contribute to a comprehensive understanding of ERT, providing deeper insights for scholars and practitioners in developing strategic to risk management. As these factors are becoming increasingly relevant in today's dynamic business landscape. Eventually, enhancing understanding of these determinants can lead to more effective risk management strategies, ensuring organizational sustainability and resilience in a rapidly changing environment.

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Biography

Annisa Salsabila is a Master's student in Financial Management, Widytama University, Indonesia. She focuses on advanced financial management, risk management and investment management with research interests centered on financial performance, corporate governance, and Corporate Social Responsibility (CSR). With a background in investment analysis and a keen interest in enterprise risk-taking and sustainable finance, she aims to contribute to the field by examining the intersection of risk behaviors, financial performance and corporate governance. Through a systematic literature review on Enterprise Risk Taking, she contributes to the field by analyzing key factors that influence corporate decision-making and financial performance in dynamic business environments.

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