

Oxford Brookes University

**FACTORS THAT SHAPE AN ORGANISATION'S
RISK APPETITE: INSIGHTS FROM THE
INTERNATIONAL HOTEL INDUSTRY**

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ABSTRACT

Since the 2008 global financial crisis, a major challenge for the Board of Directors (BoD) and risk managers of large, public corporations has been to clearly define and articulate their company's risk appetite. Considered as a business imperative to ensure successful enterprise risk management, risk appetite has been widely discussed among practitioners and, more recently, academics. Whilst much emphasis has been placed upon defining risk appetite and identifying the ways in which an organisation's risk appetite statement can be articulated, the literature has largely ignored the critical idea that risk appetite is not a 'static picture', but changes over time according to a variety of factors residing in the organisation's internal and external contexts. Using the international hotel industry as research context, this study explores the underlying factors that shape an organisation's risk appetite. Building on the 'living organisation' thinking and employing the 'living composition' model as a conceptual lens, this thesis integrated several strands of literature related to risk appetite, organisational risk taking and individual risk taking, and developed a conceptual framework of factors that shape an organisation's risk appetite.

Given the scarcity of risk appetite research, an exploratory, qualitative approach was adopted and the fieldwork was conducted in two stages: stage one served to gain a generic-business perspective of the main factors that shape an organisation's risk appetite. Data was gathered from ten risk consultants using unstructured in-depth interviews. The findings were subsequently validated and further explored in stage two, which involves a case study of two publicly listed international hotel companies with different risk appetites. Questionnaires and follow-up semi-structured interviews were used to collect data from sixteen corporate executives and risk managers in order to understand the factors that shape their organisation's risk appetite.

The findings indicated that an organisation's risk appetite is collectively shaped by a set of 'organisational', 'environmental' and 'decision-maker' factors. While most factors are shared between the case organisations, the significance of each factor to risk appetite, the ways in which each factor shapes the risk appetite and the interrelationships among different factors are dissimilar. This led to the development of a 'living organisation' framework of factors that shape an organisation's risk appetite, which is a key contribution to knowledge of this study. The findings also revealed how corporate executives and risk managers understand the concept of risk appetite, thus contributing to the literature with an 'end user' perspective of risk appetite definition, as well as a unique 'black hole' analogy of risk appetite. Not only can the findings facilitate a more accurate and meaningful articulation of an organisation's risk appetite statements, they also highlight the need for corporate executives and risk managers to regularly monitor and update their organisations' risk appetite. To this end, the 'living organisation' framework of factors that shape an organisation's risk appetite provides a basis for the development of a risk appetite monitoring system, as well as a tool for modifying the risk appetite.

DEDICATION

To my wonderful wife, Luna, who sacrificed so much to enable me to
embark on, continue, and finish this research;

To my beautiful children, Max and Lisa, for their love and understanding of
a Daddy who always worked at the weekends;

To my parents in-law, for their selfless support with the housework and
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To my parents, for their unconditional love and belief in me;

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LIST OF ABBREVIATIONS

BoD	Board of Directors
BSI	British Standards Institution
BTOF	Behavioural Theory of the Firm
COSO	Committee of Sponsoring Organisations of the Treadway Commission
EC	Executive Committee
EUT	Expected Utility Theory
FRC	Financial Reporting Council
FRC	Financial Reporting Council
FSA	Financial Services Authority
FSB	Financial Stability Board
ISO	International Standards Organisation
IRM	Institute of Risk Management
PT	Prospect Theory
REITs	Real Estate Investment Trusts
RIMS	The Risk Management Society
SST	Sensation Seeking Theory
TRT	Threat-Rigidity Thesis

CHAPTER ONE

INTRODUCTION

1.1 Problem definition

Since the 2008 global financial crisis, a major challenge for the Board of Directors (BoD) and risk managers of large, public corporations has been to determine and articulate their organisation's risk appetite statement (Baldan *et al.*, 2016; Gontarek, 2016; Lam, 2014). Recognised as a business imperative to ensure effective risk decision making, risk appetite is often defined as the types and amount of risk an organisation is willing to take to achieve its strategic objectives (Alix *et al.*, 2015; Bromiley *et al.*, 2015; Lamanda and Voneki, 2015). The origin of the term can be traced back to the 'Turnbull Report', which was designed to guide UK public companies to conform to the Combined Code on Corporate Governance (Carey, 2000). The report suggested that BoDs should define and articulate their organisation's 'risk appetite'. Subsequent US and UK regulations, such as the 'Sarbanes-Oxley Act' (Bargeron *et al.*, 2010), the 'COSO' risk management guide (COSO, 2009), the Standard & Poor's credit rating criteria (Standard & Poor's, 2006) and the British Risk Management Standard 'BS 31100' (BSI, 2008), have all highlighted the need for organisations to recognise and explicitly articulate the amount of risk they are willing to take. The consequences of failure to meet such a need were demonstrated by the collapse of many corporations during the 2008 global financial crisis (Kirkpatrick, 2009; Power, 2009).

In the aftermath of the financial crisis, more regulations in relation to risk appetite were introduced and enforced in a variety of business sectors. Some notable examples include the international banking regulation, 'Basel III' (Weydert, 2010), the European Union insurance company regulatory standards, 'Solvency II' (FSA, 2011), and the revised corporate governance guidance for all listed companies in the UK, 'UK Corporate Governance Code' (FRC, 2014). Nevertheless, in order for these regulations to have any

real effect, organisations need appropriate guidance and support for the determination and articulation of their risk appetite statement. Unfortunately, the regulators have failed to provide any useful help in this regard (Gontarek, 2016; Lam, 2014), which has led to a number of risk practitioners and scholars devising and promoting their own methodologies (e.g. Alix *et al.*, 2015; Baldan *et al.*, 2016; Dillon *et al.*, 2011; FSB, 2013; Hillson and Murray-Webster, 2012).

However, a common issue across most methodologies appears to be an overemphasis of the role of organisational factors in determining the risk appetite, whereas the potential impact of the dynamic and complex environment on risk appetite has not been sufficiently recognised (Berlinger and Varadi, 2015; Lam, 2014; Palmer and Wiseman, 1999). If these ‘partial’ methodologies were adopted by organisations, not only would it result in an ill-defined risk appetite statement, it would also instil a bias among top decision makers that risk appetite is only determined by internal factors of an organisation. This inward view can hinder effective risk decision-making in the turbulent business environment.

Compared to the overemphasis of organisational factors in determining the risk appetite, a more alarming issue is that many regulators, risk practitioners and scholars appear to have overlooked the idea that an organisation’s risk appetite is not static, but continually changes according to what is happening in the organisation’s internal and external contexts (Georgousopoulou *et al.*, 2014; Gontarek, 2016; Lam, 2014). In other words, an organisation senses the internal and external changes and adapts its risk appetite accordingly. This dynamic nature of risk appetite indicates that the particular types and amount of risk an organisation is willing to take as stated in the risk appetite statement are unlikely to remain the same at a later point in time. Thus, any continuous use of the ‘out-of-date’ risk appetite statement would lead to inappropriate or even disastrous decisions. For example, studies (Kirkpatrick, 2009; Nord and Smith, 2009) investigating the causes of 2008 financial crisis discovered that the amount of risk many large investment banks were taking at the time of the crisis was

significantly higher than what was allowed in their risk appetite statements. While this inconsistency could be the result of extreme risk-seeking actions from certain individuals, it is more probable that the risk appetite of those organisations had undergone a substantial change without being properly recognised by their senior decision makers. Therefore, rather than increasing the pressure for organisations to produce a risk appetite statement, it is more sensible for corporate governance regulators to realise and promote the idea that an organisation's risk appetite is in constant change and needs to be closely monitored and regularly updated.

In order to monitor changes in an organisation's risk appetite, it is necessary to understand the factors that shape an organisation's risk appetite. Surprisingly, despite a growing research interest on risk appetite (Alix *et al.*, 2015; Aven, 2013; Baldan *et al.*, 2016; Bromiley *et al.*, 2015; Gontarek, 2016; Lamanda and Voneki, 2015), no empirical study has been undertaken to investigate the factors that shape an organisation's risk appetite. Although some risk practitioners have identified several likely factors, such as risk capacity (Shortreed, 2010), risk culture (Hillson and Murray-Webster, 2012; Rittenberg and Martens, 2012), objectives (Dillon *et al.*, 2011; EY, 2010), decision-maker risk propensity (Allan *et al.*, 2011) and stakeholder demands (Carothers, 2011), they have been unable to explain in detail how and why these factors influence the risk appetite. They have also failed to distinguish the relative significance of the factors to risk appetite, hence giving rise to a misconception that all factors are equally important in shaping the risk appetite (Hillson and Murray-Webster, 2012; Lam, 2014). Additionally, existing factors are mostly confined to the internal context of an organisation, and potential factors that reside in an organisation's external environment remain largely underexplored (Berlinger and Varadi, 2015; Georgousopoulou *et al.*, 2014).

These abovementioned limitations highlight a knowledge gap in the current risk appetite literature, which is a lack of an in-depth understanding of the factors that shape an organisation's risk appetite. In particular, little is known about what internal and external factors shape an organisation's risk

appetite and in what ways, and whether the factors are equally important or that some are more important than others. Filling this gap will not only help organisations develop more accurate risk appetite statements, it will also help senior decision makers and risk managers better understand the relationships between risk appetite and various elements of an organisation's internal and external contexts. Such an enhanced understanding can facilitate a more effective monitoring of changes in risk appetite, and also allow the identification of an organisation's risk appetite 'levers', i.e. the factors over which the organisation has direct control. The levers could be used by senior decision makers and risk managers to proactively modify the organisation's risk appetite, thus ensuring the risk-taking decisions are made more confidently and have taken into account the internal and external changes. Filling the gap could also benefit corporate governance regulators and consulting firms in providing more effective guidance on risk appetite. Hence, three main research questions are formulated for this study:

1. What (internal and external) factors influence an organisation's risk appetite?
2. How do these factors influence the risk appetite?
3. Which factors are the most important in shaping the risk appetite?

To answer these questions, this research seeks to conduct a comprehensive literature search to identify any internal and external factors that could shape an organisation's risk appetite. Potential factors are then categorised and mapped onto a conceptual framework (Figure 2.4, p. 74), which is validated and enriched by a group of world-renowned risk consultants. The revised framework is evaluated and further explored with corporate executives and risk managers of two large international hotel companies, where the significance of the factors to risk appetite and the ways in which they shape the risk appetite are established. A final framework of factors that shape an organisation's risk appetite (Figure 5.1, p. 185) – is then developed, which is the study's main contribution to knowledge.

1.2 Key concepts underpinning the research

As stated in the preceding paragraph, this research builds on a thorough review of the literature to identify potential factors that shape an organisation's risk appetite. Due to the scarcity of risk appetite research, the literature search focused on the generic risk taking literature, where similar concepts such as risk propensity and risk behaviour appear particularly useful to understand risk appetite. Examining these concepts and relating them to risk appetite can better position this study in the wider academic literature, given that risk appetite is a concept very much originated from and discussed among practitioners (Bromiley *et al.*, 2015; Lam, 2014). Thus, this section explains the key concepts that underpin this research: organisational risk propensity, organisational risk behaviour, individual risk propensity, and the 'living organisations' thinking.

Organisational risk propensity

Central to the concept of risk appetite is the notion of organisational risk taking (Aven, 2013; Hillson and Murray-Webster, 2012; Lam, 2014). Whilst few studies have been conducted on risk appetite, more research has been undertaken in the broader organisational risk taking literature, examining how and why organisations take risks and the factors that drive risk taking (e.g. Baixauli-Soler *et al.*, 2015; Berger *et al.*, 2014; Bhagat *et al.*, 2015; Dhoubi *et al.*, 2016; Harwood *et al.*, 2009). Unfortunately, organisational risk taking research involves an imprecise vocabulary (Roszkowski and Davey, 2010). Several terms are often used interchangeably to describe the willingness of an organisation to take risks, which include risk propensity (Cho and Lee, 2006; Das and Teng, 2001; Harwood *et al.*, 2009; Walls and Dyer, 1996) and risk tolerance (Kwak and LaPlace, 2005; Roszkowski and Davey, 2010; Walls, 2005a) as the most common ones. The term risk propensity, in particular, conveys a very similar, if not identical, meaning to risk appetite. Whilst risk appetite is mostly defined as the amount of risk an organisation is willing to take (Aven, 2013; Baldan *et al.*, 2016; Lam, 2014),

risk propensity is often referred to as the degree to which an organisation is willing to take risks (Cho and Lee, 2006; Harwood *et al.*, 2009; Pablo and Javidan, 2002; Walls, 2005a;). This similarity has even led Harwood *et al.* (2009) to suggest that risk propensity and risk appetite are two terms representing the same concept in different contexts: risk propensity is the academic term and risk appetite is the term used by practitioners. Given that research on organisational risk propensity offers useful insights into the factors that influence an organisation's willingness to take risks, this research concurs with Harwood *et al.* (2009) and builds on organisational risk propensity literature to explore the factors that shape an organisation's risk appetite.

Organisational risk behaviour

Apart from drawing on organisational risk propensity research, this research also draws on findings from studies investigating the factors that influence an organisation's risk behaviour. Although risk behaviour and risk propensity have been recognised as closely-related but different concepts (Das and Teng, 2001; Kull *et al.*, 2014; Sitkin and Pablo, 1992; Sitkin and Weingart, 1995; Zheng and Prislin, 2012), i.e. risk propensity represents an organisation's *intention* to take risks and risk behaviour refers to the organisation's *actual* behaviour, several scholars (e.g. Baixauli-Soler *et al.*, 2015; Boyd and De Nicolo, 2005; Desai, 2008; Dhouibi *et al.*, 2016; Panzano and Roth, 2006) did not distinguish these two terms and used both interchangeably in their studies of organisational risk behaviour. Despite this, their insights into the factors that drive an organisation's risk-taking behaviour seem particularly useful to aid the understanding of factors that shape an organisation's risk appetite.

Individual risk propensity

Although the literature on organisational risk propensity and risk behaviour is useful to explore the factors that influence risk appetite, the size of this literature is relatively small. An analysis of the risk taking literature beyond

organisational boundary reveals that there is a more substantial, multi-disciplinary literature focused on understanding the risk taking of human beings. Scholars from various fields, such as psychology (Mata *et al.*, 2016; Pauley *et al.*, 2008; Wang *et al.*, 2009), finance (Al-Ajmi, 2008; Anbar and Eker, 2010; Riley and Russon, 1995) and strategy (Bernard *et al.*, 2007; Das and Teng, 2001; Zheng and Prislin, 2012), have conducted large-scale quantitative studies to examine the internal and external factors affecting an individual's willingness to take risks. In this literature, the concept of individual risk propensity, also known as risk tolerance in some studies (Faff *et al.*, 2009; Neelakanta, 2010; Pauley *et al.*, 2008; Roszkowski and Davey, 2010), is defined in the same way as organisational risk propensity, albeit that the focus is on human beings rather than organisations. Despite this difference in the level of analysis, the valuable insights offered in this literature have led several researchers (e.g. Baird and Thomas, 1985; Saini and Martin, 2009; Sitkin and Pablo, 1992) to argue that parallels can be drawn between individuals and organisations regarding the factors that influence risk propensity. As Saini and Martin (2009: 594) argued: *'conceptualisations of risk propensity at the individual level can be extended to the organisational level'*.

The 'Living organisations' thinking

Nevertheless, without an appropriate conceptual basis, it can be problematic to apply individual-level research findings to analyse organisational-level phenomenon. The 'living organisations' thinking (de Geus, 1997; Maula, 2006; Wolfe, 2011), which is underpinned by the living systems theory (Miller, 1978; Miller and Miller, 1990) and the autopoiesis theory (Maturana and Varela, 1980), offers a solid conceptual basis that supports this transition. The 'living organisations' thinking represents a group of beliefs that views organisations as same as human beings (de Geus, 1997; Maula, 2000; Tracy, 1994; Vancouver, 1996; Wheatley and Kellner-Rogers, 1995; Wolfe, 2011). Informed by the 'living organisations' thinking, the 'living composition' model (Maula, 2006) provides a robust theoretical framework that not only enables the application of research findings on the

risk propensity of individuals to the organisational context, but also offers a unified structure that allows the categorisation of a wide range of internal and external factors into an interconnected whole. The ‘living composition’ model forms the basis of the ‘living organisation’ framework of factors that shape an organisation’s risk appetite (Figure 5.1, p. 185), which is the main contribution to knowledge of this study.

1.3 Research context

To fill the knowledge gap relating to the factors that shape an organisation’s risk appetite (p. 3), this research has focused on companies from the international hotel industry. The key reasons informing such a choice are:

- 1) The global business environment and the international hotel industry have become highly uncertain with many risks threatening the performance and survival of hotel companies.

A decade and a half into the 21st century, international hotel companies are competing in an environment with an unprecedented level of risks: rising political tensions and terrorism activities (Langford, 2016; McGuire, 2015), an unbalanced global economy (Brandau, 2016), a greater shortage of skilled labour (Langford, 2016; McGuire, 2015), emerging disruptive technologies (Brandau, 2016; EY, 2016) and increasing occurrences of severe weather conditions/natural disasters (Bremner *et al.*, 2015; EY, 2016). At the industry level, there is intensifying rivalry among the leading hotel companies, fuelled by increasing business consolidations (Geerts, 2016) and constant product and service innovations (Euromonitor, 2015; Langford, 2016). While these risks threaten the performance and viability of the hotel companies, they also present opportunities (Andersen and Schroder, 2010; Hillson, 2002), if exploited, can lead to the development of competitive advantages and ultimately more sustainable and responsible businesses (Geerts, 2016; Green, 2016). To compete and thrive in such a

turbulent but exciting environment, risk taking is inevitable and necessary (Desai, 2008; Hernandez-Perlines, 2016).

- 2) Major hotel companies are taking greater risks to compete against each other, highlighting the need to better understand their risk appetite.

Recently the international hotel industry has witnessed a surge of mergers and acquisitions (M&As), an activity that is generally considered as rewarding but highly risky. For example, Accor spent \$3 billion in 2016 to acquire Fairmont Raffles and Onefinestay (Smith *et al.*, 2016; Ting, 2016), which suggests a risky investment given the high possibility of failure for most M&As (Bhimani *et al.*, 2015; Quek, 2011; Saunders *et al.*, 2009). Similarly, Marriott completed the acquisition of Starwood in September 2016 in a record-breaking \$12.4 billion deal (Marriott, 2016), which made Marriott the world's largest hotel company. However, the sheer size of the financial investment and the complexities of post-acquisition integration (Bedford and Ehlert, 2011; Koerniadi *et al.*, 2015) meant that Marriott had taken a significant level of risk (Higley, 2016; McNew, 2016). The acquisition of Starwood can be considered as even more risky for Marriott, given that this deal came only two years after the company had purchased the Protea Hotels to become the largest international hotel chain in Sub-Saharan Africa (Cohen, 2014), a high-risk market where other industry rivals are less inclined to enter (Blitz and Blas, 2014; Salazar, 2008; Sotunde, 2013).

A likely motive underpinning the increasing risk taking of international hotel companies could be the decision makers' optimism that the more risk a company takes, the more reward it will receive (Chen, 2013; Villar *et al.*, 2012). However, every company has a 'limit' in risk taking, over which more risk can no longer generate reward, but increases the vulnerability of the company (Andersen and Bettis, 2014; Green, 2016). Also, finite financial and human resources within a company mean that desired level of risk taking cannot always be supported (Bromiley and Rau, 2014). As such,

hotel companies need to take a strategic and calculated approach to risk taking, one that is not only justified by the resources of the company, but also informed by an understanding of the company's wider context (Damodaran, 2008; Lam, 2014; Shefrin, 2016). This 'smarter' approach to risk taking requires the decision makers to be conscious of the types of risk their company is willing to take and the amount it is comfortable with (Baldan *et al.*, 2016; Berlinger and Varadi, 2015; Lam, 2014). In other words, they need to understand their company's 'risk appetite'.

1.4 Research aim and objectives

Based on the preceding discussion, the overall aim of this research is:

'To identify and evaluate the factors that shape an organisation's risk appetite in the context of the international hotel industry.'

In order to achieve the research aim, five research objectives are identified:

1. To understand the concept of risk appetite and its theoretical underpinnings by critically reviewing the generic risk taking literature and the specific risk appetite literature.
2. To identify the factors that could shape an organisation's risk appetite by analysing both the practitioner and academic literature and drawing upon the 'living organisations' thinking.
3. To explore the factors which shape an organisation's risk appetite and evaluate their importance by conducting qualitative empirical research in the international hotel industry.
4. To explain the factors that shape an organisation's risk appetite.

5. To make a theoretical contribution to knowledge by proposing a framework for the analysis of an organisation's risk appetite in the context of the international hotel industry.

1.5 Structure of the thesis

This thesis comprises six chapters. Chapter one presents an overall introduction, which identifies the research gap and explains how the research seeks to fill the gap. It also identifies the research aim and objectives. Chapter two addresses the first two research objectives, reviewing the literature on risk appetite, risk propensity and 'living organisations' and proposing a conceptual framework for the primary investigation of factors that shape an organisation's risk appetite. Chapter three explains in detail the methodology of this research and how the primary data was collected and analysed. Chapter four presents the main research findings, which are discussed in the context of the literature in Chapter five. Chapter six presents the conclusions of the research, highlighting the contributions to theory, practitioners and methodology. Limitations of the research and further research directions are discussed, and a personal reflection the research journey is presented.

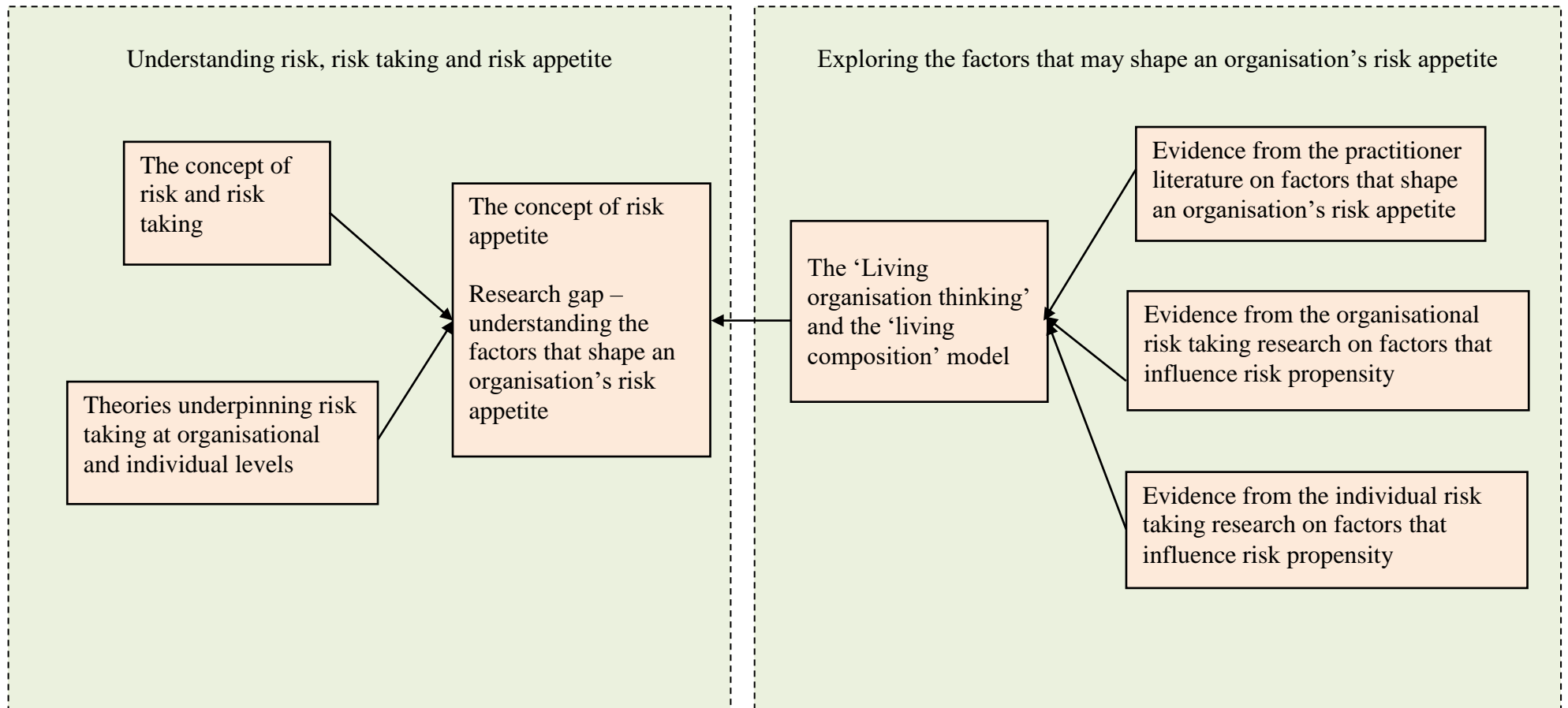
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature review of the research and addresses the first two objectives of the research. The chapter starts with a critical discussion on the concept of ‘risk’ and ‘risk taking’, followed by a review of the main theories underpinning the risk taking of individuals and organisations. The concept of risk appetite is introduced and the knowledge gap is highlighted. The chapter then examines the practitioner and academic literature to identify potential factors that shape an organisation’s risk appetite. Following a discussion of the ‘living organisations’ thinking and specifically the ‘living composition’ model as a robust conceptual basis for this research, the chapter draws together the literature findings and proposes a conceptual framework of factors that shape an organisation’s risk appetite. Figure 2.1 (p. 13) presents a literature map illustrating how different components of this chapter are connected.

Figure 2.1 Literature map



2.1 Understanding risk, risk taking and risk appetite

2.1.1 The concept of risk

Risk is a term originated from 16th century Spanish and Portuguese languages that means '*sailing in uncharted waters*' (Denney, 2005: 9). While it is generally viewed as '*the possibility of meeting danger or suffering harm*' (Livingstone, 2008: 570), scholars of different disciplines define it differently, and there seems no widely agreed definition that can be applied to every context (Power, 2007). For example, in finance, risk is viewed as a precise technical term for the probabilistic distribution of future market returns (Bender, 2014; Damodaran, 2008). Economics scholars consider risk as the variability of profits (Bowman, 1982; Sargent and Vilmunen, 2013). Management researchers see risk as the subjective judgement of the personal or organisational consequences resulting from a specific decision or course of action (Friberg, 2015; Shefrin, 2016). Even within a discipline there is often no consensus on risk definitions (Hopkin, 2013; Lam, 2014).

In an attempt to achieve a more unified understanding, some researchers began to seek commonalities from various risk definitions. Vlek and Stallen (1980) for example, identified six mostly adopted risk definitions: 1) the probability of loss; 2) the size of credible loss; 3) the expected loss; 4) the variance of the probability distribution over the probability of all possible consequences; 5) the semi-variance of the utility distribution and; 6) a linear function of the expected value and the variance of the distribution of consequences. While these six definitions have effectively summarised the scholarly thinking before the nineteen-eighties, more contemporary thinking of the risk concept concentrates on a debate of two perspectives: the *probability* and the *combination* perspectives (Coleman, 2009). The probability perspective views risk as a one-dimensional concept, referring merely to the probability of an undesirable event happening to either individuals or businesses (Adams, 1995; Breakwell, 2007; Yates and Stone,

1992). The more complicated combination perspective considers risk as a two-dimensional concept, including a combination of both the probability of an undesirable event happening as well as the magnitude of the potential loss (Friberg, 2015; Hopkin, 2013; Loosemore *et al.*, 2006).

While the probability perspective is straightforward to understand and communicate, it has been criticised for its inability to accurately estimate rare risks (e.g. natural disasters) and for its negligence of the magnitude of potential losses (Hillson, 2009; Loosemore *et al.*, 2006; Zinn and Taylor-Gooby, 2006). Nevertheless, the combination perspective, which endorses the mixture of probability and magnitude, is not without questions. One question is how the probability and magnitude of the potential loss can be combined (Douglas, 1992; Hillson, 2009). It is unclear whether the probability and the magnitude should be multiplied or added, i.e. Risk (R) = Probability of loss (P) \times (or +) Magnitude of loss (M). There appears to be a tendency towards multiplication, but there is also a further question as to whether the probability and the magnitude carry equal weight for the overall level of risk (Llewellyn, 2003). In other words, is a high probability (80%) and low magnitude (£20) risk equivalent to a low probability (20%) and high magnitude (£80) risk, since both risks have the same overall outcome, i.e. £16? Based on Tversky and Kahneman's (1992) loss aversion theory, it is possible to argue the magnitude of the loss is valued more than the probability, as people tend to avoid (more) loss and heavier potential losses tend to hurt more, thus in the above example the £80 risk with 20% probability carries more weight.

Apart from the above dimensional debate, another debate concerns whether risk has a purely negative or a negative-and-positive connotation, where the positive connotation is the rewards. Although the negative view dominated the pre-2000 era (Kaplan and Garrick, 1981; Slovic, 1987), a shift to a negative-and-positive view had prevailed in the post-2000 period. In addition to business and management researchers, scholars from other disciplines have also supported the mixed view of the risk nature. For example, social scientists argued that risk does not always involve loss and

should not be conceptualised negatively (Denney, 2005; Douglas, 1992; Giddens, 1998; Zinn, 2008; Zinn and Taylor-Gooby, 2006); instead, risk is the '*driving force behind global capitalist development, a dynamic positive force for good, and a prerequisite to participation in a technologically based global era.*' (Denney, 2005: 11). Psychologists (e.g. Trimpop, 1994) also postulated that if risk is only defined as a potential loss, then the potential gain is likely to be missed. However, issues associated with this negative-and-positive view of risk have also been recognised. Loosemore *et al.* (2006: 13) stated that '*the problem for an organisation in making risk an umbrella term, which encompasses both threat and opportunity, is that people focus on the former and ignore the latter*'. The eventual results of doing so might be lost opportunities and under-performance (Chapman and Ward, 2002; Loosemore and Lam, 2004).

A third debate on the risk concept relates to whether risk is an objective or subjective construct. An interesting distinction noted in the risk literature between objective and subjective risk, according to Trimpop (1994), is that objective risks are those calculated by risk experts, while subjective risks are those estimated and experienced by ordinary people. Not surprisingly, this distinction has received much criticism. Many scholars argue that an objective risk is in itself a subjective judgement of the risk experts, and the very gathering and interpretation of statistical data for risk assessment is also subjective (Fischhoff *et al.*, 1984; Sjoberg, 1980). In fact, risk cannot exist independently of people's minds and values (Adams, 1995; Coleman, 2009; Llewellyn, 2003). However, the judgement of a risk may vary considerably across individuals. A particular risk event that is judged to pose a threat to an individual or a business may be seen as an opportunity by others (Loosemore *et al.*, 2006).

Given the above discussion, this research adopts the more popular combination perspective, negative-and-positive connotation and the subjective nature view of risk. Therefore, the term risk is defined in this thesis, as 'a potential future event which is uncertain in its probability and magnitude of loss and gains, and may thus adversely or positively affect the

achievements of a person's or an organisation's objectives.' There are four essential elements in this definition. The first is 'uncertainty', implying that the lack (or absence) of information on a future event makes the probability and magnitude unpredictable (Hillson, 2002). A certain and predictable future event is not a risk but an issue. The second is 'event'. Many scholars tend to equate risk with loss, which is mistakenly focused on the consequences of the risk event, rather than the particular event itself (Loosemore *et al.*, 2006). The third is 'future'. Risk is essentially forward-looking and only concerns events that may happen in the future. Past events are not risks but actual problems. The fourth is 'objectives'. A future event that has no potential impact on the achievements of individual or business objectives is not considered as a risk (Hillson, 2009).

Having discussed the concept of risk, the following section explains the notion of risk taking, which is integral to most human and business activities.

2.1.2 Risk taking

Researchers and practitioners have long understood that the opportunities presented by risks could lead to substantial rewards. In a personal context, for instance, these rewards may be higher sensation or satisfaction (Horvath and Zuckerman, 1993; Zuckerman, 1994); in a business context, these rewards may typically be higher profits. While some argue that risks always exist in human activities (Adam, 1995; MacCrimmon and Wehrung, 1986), this research believes that it is the potential rewards that motivate individuals and businesses to willingly take on risks. There is a wealth of anecdotal evidence in the business world to show that risk taking can be highly rewarding, such as the initiative of Microsoft in designing the 'Windows' operating system, Toyota's move in designing a hybrid car model, Google's early decision to charge advertisers on the number of site visits (Damodaran, 2008). More rigorous academic evidence has also demonstrated that risk taking is positively linked with reward. For example, in a study of 50 largest US oil companies between 1981 and 2002, Walls

(2005b) found that companies that took more risks tend to generate much higher returns than those that took fewer risks.

Nevertheless, there is also evidence that risk taking may not necessarily result in increased rewards. The famous 'Bowman's Paradox' (Bowman, 1980), which depicts a negative relationship between firm risk taking and financial return across many industries, contrasted the conventional notion that higher risk leads to higher returns and subsequently sparked numerous tests about the relationship between risk and reward (Bowman, 1982; Figenbaum, 1990; Figenbaum and Thomas, 1986, 1988). Figenbaum and Thomas (1988), for instance, separated firms into those that earn below and above target level returns and discovered a disparity in the risk-return relationship. Firms that earned below the target level became risk seekers and the relationship between risk and return was negative, whereas returns and risk were positively correlated for firms earnings above target level.

While the controversies of risk and reward relationship remains, it seems to be increasingly accepted that there is a limit in firm risk taking, over which more risk taking will lead to reduced reward (Lam, 2014). This is where the concept of risk appetite comes in (section 2.2.3), which aims to set out the optimal level of risk for an organisation to take before starting to suffer any loss of reward. However, prior to examining the concept of risk appetite, it would be sensible to review the generic risk taking literature to better understand the key theoretical perspectives underpinning the risk taking of individuals and organisations.

2.1.2.1 Individual risk taking theories

Research that explains the individual risk taking in both simple and complex situations seems to have built upon three prominent theories, namely expected utility theory (EUT), prospect theory (PT) and sensation seeking theory (SST).

Expected utility theory (EUT)

Originally developed by Bernoulli in 1738 and later updated by von Neumann and Morgenstern in 1947, EUT has long been regarded as one of the fundamental models explaining how individuals take risk (Bernard *et al.*, 2007; Schoemaker, 1982). In essence, EUT argues that people are rational decision-makers; when facing risky options, they will evaluate each option and choose the one that maximises their expected utility. It proposes a utility function that is uniformly concave, i.e. as one's wealth increases, one's marginal utility decreases. For example, the marginal utility of a £1 gain is much less for someone who has £1,000 than one who has only £10. Hence, a risk with a potential chance of a £1 gain is not very appealing for the one who has £1,000, compared with the one who has only £10.

EUT had been a dominant normative and descriptive model of cognitive risk decision model for a few decades (Schoemaker, 1982) and served as the cornerstone for many studies, such as Swalm (1966) and Friend and Blume (1975), all of which found evidence that supports the theory. However, many scholars later discovered that in more complex situations individuals do not always behave according to EUT predictions (Machina, 1987; Schneider and Lopes, 1986; Schoemaker, 1982; Slovic and Lichtenstein, 1983). What they found was that when potential losses are envisaged, most people prefer a risky option to a certain outcome of equal expected value, i.e. they are actively seeking risks facing a potential loss (Schneider and Lopes, 1986). The finding demonstrates that EUT may have a poor predictive ability of individual risk taking in complex real-world settings (Bernard *et al.*, 2007), and so scholars searched for alternative explanations of individual risk taking.

Prospect theory (PT)

One of the leading alternative explanations to EUT is developed by Kahneman and Tversky (1979), who found that given a choice between two risky options with an equal expected return, individuals are more likely to

choose the riskier alternative in the face of definite losses and choose the less risky one in the face of definite gains. They theorised this finding as the PT, which became arguably the most prominent theory explaining individual risk taking (Bromiley *et al.*, 2001). PT posits that in choosing among risky alternatives, an individual will evaluate available choices according to a neutral reference point rather than weighing up the expected utility of each choice (Kahneman and Tversky, 1979). Evaluation outcomes that are below the reference point will be seen as losses, while outcomes that are above the reference point will be seen as gains. The individual will be risk-seeking if a loss is perceived, and conversely risk-averse if a gain is anticipated. This prediction challenges deeply the premise of the EUT, where individuals are thought to be rational and risk-averse at all times. Moreover, a key notion within the PT is loss aversion, which implies that individuals tend to value a certain amount of gain much less than the same amount of loss (Levy, 1992; West and Shelton, 1998). In other words, the pleasure of winning £10 would be simply outweighed by the displeasure of losing £10.

PT has received significant research interest across economics, finance, psychology, and management fields, where numerous empirical tests have been conducted. While the theory has received considerable support (Baucells and Rata, 2006; Moreno *et al.*, 2002; Schoemaker, 1990), it has also received a number of challenges. For example, Nwogugu (2005) claimed that the theory was developed using questionable methods and data. This view coincides with the argument that PT's laboratory-based experimental origin has little explanatory power for real life events (Levy, 1992). Indeed, many scholars have found real world evidence that contradicts the PT. Thaler and Johnson (1990), for instance, investigated the effect of past outcomes on future risk taking and found that prior success tends to encourage an individual to take more risks in the future. Staw *et al.* (1981) argued that individuals will become more rigid and avoid taking any risks when threatened by potential losses.

Sensation-seeking theory (SST)

Another different, but equally important theoretical explanation of individual risk taking is Zuckerman's (1994) SST. He argues that people's risk taking is motivated by the need to seek varied, novel, and complex sensations and experiences. Although not as popular as EUT or PT, research has confirmed SST's significance as a highly consistent predictor for various kinds of risk taking, including gambling and participation in high risk activities (Zuckerman and Kuhlman, 2000). For example, in a sample of 223 undergraduate students, Wong and Carducci (1991) found that people with a high level of sensation seeking exhibit greater tendency to take in everyday financial risks.

2.1.2.2 Organisational risk taking theories

A number of theories have attempted to explain organisational risk taking. Among those, the behavioural theory of the firm (BTOF) and the threat-rigidity thesis (TRT) appear to be the most salient. A strand of research has also applied the individual-level-oriented prospect theory (PT) in the context of organisations. This section critically evaluates these theories.

Behavioural theory of the firm (BTOF)

One prominent theoretical perspective on organisational risk taking is BTOF, which was developed by March and Simon (1958) and Cyert and March (1963). The theory predicts how a firm's behaviour will change when a gap exists between its expected performance and the aspiration level. When expected performance is higher than the aspiration level, the firm will stick to its established standard operating procedures in order to avoid unnecessary uncertainty. However, when expected performance is lower than the aspiration level, the firm will initiate searches to look for alternatives that will increase its performance (Cyert and March, 1963; Shimizu, 2007). It is assumed that this process of search (for changes) involves more risk for the firm, since the consequences of adopting any

alternative are uncertain. Therefore, the implication of this perspective on firm risk taking is that a firm will be risk-averse when the expected performance exceeds its aspiration level, and will be risk-seeking when the expected performance falls below its aspiration level.

While BTOF has been supported by many organisational risk-taking studies (Chen and Miller, 2007; Ketchen and Palmer, 1999; Park, 2007; Wiseman and Bromiley, 1996), some scholars found that organisations may not necessarily be risk-seeking in the face of poor performance. For example, the longitudinal study of 1,237 family-owned firms in Spanish olive-oil mills by Gomez-Mejia *et al.* (2007) revealed that poor performing firms take less risk in the face of bankruptcy. This may be explained by March and Shapira's (1992) notion that an organisation's performance aspiration level is not static but adaptive: when the organisation approaches bankruptcy, the aspiration level can downshift to a survival level. In this situation, instead of being risk-seeking, an organisation will become more risk-averse, as its performance is still considered as exceeding the aspiration level, which is the bankruptcy.

Threat-rigidity thesis (TRT)

Another possible explanation of Gomez-Mejia *et al.* (2007) in the preceding paragraph could be found in the TRT (Staw *et al.*, 1981), which was an equally prominent theory designed to explain how organisations would adapt to failure or major unfavourable environmental changes. TRT suggests that an organisation will become rigid in the face of economic adversity, due to the restriction in information, control and resources. In such circumstances, organisations tend to exhibit a degree of rigidity, combined with an inability to act or innovate (Staw *et al.*, 1981). This implies that an organisation will be risk-averse when its performance declines or when it experiences any adversity that threatens its performance. As this prediction directly contradicts the BTOF, it has sparked considerable research interest. A number of researchers in the areas of organisational decline and crisis management have found empirical support for TRT (Cameron *et al.*, 1987;

Jung and Bansal, 2009). For example, Cameron *et al.* (1987), in their large scale study of 334 higher education institutions during times of decline, observed that organisations exhibit a significant resistance to change and become risk-averse. Jung and Bansal (2009) analysed 701 Japanese firms to uncover the relationship between firm performance and internationalisation (which is seen as a form a risk taking). They found that the more poorly a firm performs, i.e. below its aspiration level, the less likely it will internationalise.

Bromiley *et al.* (2001) attempted to bridge BTOF and TRT, positing that the extent of poor performance may provoke different organisational risk-taking reactions. To this end, Shimizu's (2007) work adds some empirical insights to Bromiley *et al.* (2001). They found that when the performance is not far below the aspiration level, an organisation will first conduct a search for a quick solution by increasing its risk taking. When the performance is far below the aspiration level, the situation will be perceived as a serious threat, thus paralysing the organisation to the extent that they would not be motivated to search for a solution.

Prospect theory (PT)

Apart from BTOF and TRT, a number of scholars have demonstrated that PT, originally developed to explain the risk taking of individuals, can be successfully extended to the organisational context (D'Aveni, 1989; Fiegenbaum, 1990) and even the national context (Jervis, 1992; McInerney, 1992). For example, Fiegenbaum (1990) tested the PT in approximately 3,300 firms across 85 industries. In line with the theory, he finds that organisations tend to be risk-seeking when expecting a return below the target, and be risk-averse when expecting a return that exceeds the target. However, the applicability of PT to the organisational context has received much criticism. For instance, in a comprehensive review of risk research in strategic management, Bromiley *et al.* (2001) claimed that many organisational studies applying the PT have failed to assess the theory's generalisability to other contexts. This suggests that any organisational

studies that wish to build on research findings relating to the individuals need to identify a robust conceptual basis that allows for the application of individual research to organisational contexts.

2.1.3 Risk appetite

During the last decade the term ‘risk appetite’ has become a recurring topic among corporate governance regulators and increasingly appeared on the top of business agendas (Gontarek, 2016). Despite the inconsistency in its definition (Aven, 2013; Lam, 2014), risk appetite tends to manifest itself in the form of an official business statement, which outlines the types and amount of risk an organisation is willing to take in the achievement of its strategic objectives. A clearly defined and well-articulated risk appetite statement can benefit an organisation in six ways: 1) supporting the design of business strategy; 2) helping to achieve more effective allocation of resources; 3) providing guidance to decision making at all levels; 4) strengthening corporate governance and overview of risk; 5) facilitating risk communication and fostering a strong risk-aware culture and; 6) maximising stakeholder value (Allan et al., 2011; HM Treasury, 2004). However, a 2015 survey (CRO Forum, 2015) shows that few companies are able to articulate a risk appetite statement that is meaningful to the whole organisation, and for those who claim to have one, the above benefits are rarely realised. Given the increasing regulatory requirements for organisations to produce a documented risk appetite statement (FRC, 2014; FSA, 2011; ISO, 2009; Weydert, 2010), organisations tend to employ consulting firms, but their approaches to risk appetite articulation differ considerably (Alix *et al.*, 2015; Hillson and Murray-Webster, 2012; Lam, 2014). In order to alleviate potential confusion, a shared understanding of the meaning of risk appetite and a unified approach to its articulation is needed (Baldan *et al.*, 2016; Bromiley *et al.*, 2015).

Despite the significance of the concept, surprisingly, academic research on risk appetite remains limited. Many existing studies (e.g. Berlinger and Varadi, 2015; Howell and Krishnan, 2014) examine the concept of ‘investor

risk appetite' in the fields of finance and economics, which takes an individualistic view towards risk appetite, rather than viewing the concept as an organisational phenomenon as in the current study. Equally, 'investor risk appetite' appears to focus almost exclusively on financial risk. Studies that do view risk appetite as an organisational construct are mostly conceptual, where the focus has been on highlighting the importance of risk appetite for organisations (e.g. Felton, 2010; Gontarek, 2016) and presenting approaches to developing a risk appetite statement (e.g. Alix *et al.*, 2015; Baldan, *et al.*, 2016; Lamanda and Voneki, 2015). An exception is the work of Aven (2013), who engaged in the debate around risk appetite definitions and defined the concept as an organisation's willingness to take risks in pursuit of value, which is rather different to the 'mainstream' explanation (see p.1 for the definition of risk appetite).

Given the increasing regulatory pressure for a risk appetite statement, more research is likely to be undertaken in order to develop a viable methodology for the articulation of an organisation's risk appetite. However, it is crucial that researchers take adequate consideration of an organisation's external environment and to explore how it could affect the organisation's risk appetite. This is an area that most risk practitioners and researchers have overlooked, as their methodologies for articulating the risk appetite (e.g. Alix *et al.*, 2015; Baldan *et al.*, 2016; FSB, 2013; Hillson and Murray-Webster, 2012) are rather inward-looking and focus mostly on an organisation's internal context. Failing to adequately consider the potential effect of the external environment could not only result in an ill-defined risk appetite statement but also poor and ineffective risk decision making.

Additionally, the growing regulatory demand for a documented risk appetite statement, together with the increasing consultancy and academic guidance on constructing such a statement, could contribute to a misconception among decision makers that the risk appetite statement is the 'end product' or the 'final step' of the risk appetite process. It appears that most regulators, risk practitioners and even academics (e.g. Baldan *et al.*, 2016) have not considered the possibility that an organisation's risk appetite is in constant

change according to changes in the organisation's internal and external environments (Georgousopoulou *et al.*, 2014; Gontarek, 2016). For example, Baldan *et al.* (2016) explicitly stated in their article that risk appetite is a 'static picture' of an organisation's risk profile. However, as an organisation's internal and external environments are in constant change, it is unlikely that the types of risk an organisation is willing to take and the amount of risk that it feels comfortable with, will remain the same as defined in the risk appetite statement. Consequently, the continuous use of this inaccurate risk appetite statement may lead to inappropriate decisions. Therefore, while it is useful to articulate a risk appetite statement to guide decision making and satisfy the regulators, it is more crucial for decision makers to understand how a variety of internal and external factors may trigger changes to the organisation's risk appetite.

Although research on risk appetite is growing, to date no empirical study has been undertaken to investigate the factors that shape an organisation's risk appetite. While a number of risk consultants have identified several possible factors, such as risk capacity (Shortreed, 2010), risk culture (Hillson and Murray-Webster, 2012; Rittenberg and Martens, 2012), objectives (Dillon *et al.*, 2011; EY, 2010), decision-maker risk propensity (Allan *et al.*, 2011) and stakeholder demands (Carothers, 2011), it remains unclear as to how and why these factors influence the risk appetite. The risk consultants also failed to distinguish the relative significance of the factors to risk appetite, hence giving rise to the misconception that all factors are equally important in shaping an organisation's risk appetite (Hillson and Murray-Webster, 2012; Lam, 2014). Furthermore, the factors identified by risk consultants are mostly confined to the internal context of an organisation, and the effect of an organisation's external environment on the risk appetite remains very much underexplored (Berlinger and Varadi, 2015; Georgousopoulou *et al.*, 2014).

The above limitations highlight a knowledge gap within the risk appetite literature, which is a lack of an in-depth understanding of the significance of and the ways in which a set of internal and external factors shape an

organisation's risk appetite. Filling this gap will not only help the BoD and risk managers to better articulate their organisation's risk appetite and monitor potential changes, regulators will also find the findings useful in offering more effective guidance on risk appetite. In order to fill this gap, section 2.2 seeks to conduct a thorough review of the literature to identify factors that may shape an organisation's risk appetite.

2.2 Exploring the factors that shape an organisation's risk appetite

In order to gain a comprehensive understanding of the factors that might shape an organisation's risk appetite, three types of literature are critically examined: the practitioner risk appetite literature (section 2.2.1), the organisational risk taking literature (section 2.2.2) and the individual risk taking literature (section 2.2.3).

2.2.1 Evidence from the practitioner risk appetite literature

While the practitioner literature, also known as the 'grey literature', has often been criticised for lacking credibility and academic rigour (Conn *et al.*, 2003), this research still includes this strand of literature in the review because the practitioner contributions are instrumental for the advancement of pertinent academic research (Conn *et al.*, 2003; Power, 2007). This is true as increasing number of scholars have engaged with the key practitioners debates in their studies of risk appetite over the recent years (Alix *et al.*, 2016; Aven, 2013; Baldan, *et al.*, 2016; Gontarek, 2016). Also, the quality of the practitioner literature is not necessarily inferior to academic studies, and it contributes to a full representation of the evidential base of a given topic (McAuley *et al.*, 2000). Given that the existing academic research on risk appetite is almost non-existent, omitting the practitioner contributions would be problematic. Therefore, it was deemed necessary to thoroughly examine the practitioner literature on risk appetite, but with care and caution.

According to Carothers (2011) and Hillson and Murray-Webster (2012), the factors that shape an organisation's risk appetite can be classified into three broad categories: organisational, decision-maker, and environmental. Organisational factors are internal and relate to an organisation's characteristics, functions and processes. Decision-maker factors are those relevant to the attributes of an organisation's top decision makers, who are predominantly the BoD and EC. Environmental factors, on the other hand,

are external factors over which an organisation has little or no control, and concern the features of the general business as well as the industry environment. These three categories provide a comprehensive coverage of the factors that shape an organisation's risk appetite and the following review adopts this classification as a guiding structure.

2.2.1.1 Organisational factors

Risk capacity

The most frequently highlighted factor that influences the risk appetite appears to be the organisation's risk capacity (Chatzinikoli and Toner, 2009; COSO, 2009; IRM, 2011; Rittenberg and Martens, 2012; Shortreed, 2010). Risk capacity refers to the absolute maximum amount of risk an organisation is able to bear in pursuit of its business objectives (Rittenberg and Martens, 2012), which is often expressed in financial terms, as the maximum amount of money an organisation can afford to lose (Barfield, 2007; Carothers, 2011). It serves as the upper limit of an organisation's risk taking (EY, 2010), and it is argued that an organisation's risk appetite should always be set at a level that is below its risk capacity, otherwise the organisation may take on excessive risks and become vulnerable to bankruptcy. The outbreak of the 2008 global financial crisis was a very good example of this, in that the level of risks many banks were taking was significantly higher than their risk capacity (Senior Supervisors Group, 2010). Nevertheless, it remains unclear as to how risk capacity could influence the risk appetite and so this is explored in this research.

Risk culture

Another factor which could have a profound impact on risk appetite is the organisation's risk culture. According to IRM (2012: 7), risk culture is '*the values, beliefs, knowledge and understanding about risk shared by a group of people with a common purpose, in particular the employees of an organisation or of teams or groups within an organisation*'. While the

importance of risk culture to effective risk management is widely recognised (Gontarek, 2016; IRM, 2012), research that focuses on risk culture is lacking. A notable exception is the qualitative study of Power *et al.* (2013), which explored how risk culture is conceptualised and operationalised by organisations within the financial services industry. The study found that while financial organisations differ considerably in their approach to conceptualising and utilising risk culture, risk culture is a multi-faceted phenomenon comprising attitudes, habits and behaviours of organisational members.

While a number of practitioners have highlighted the possibility that the risk culture of an organisation could shape its risk appetite (Gontarek, 2016; Hillson and Murry-Webster, 2012; Power *et al.*, 2013; Rittenberg and Martens, 2012), they have been unable to explain in detail how this might be the case. For example, although Gontarek (2016) argued that a robust risk culture is a prerequisite for developing and implementing an effective risk appetite framework in an organisation, his conceptual paper failed to articulate this idea further or even identify what a robust risk culture is. Power *et al.* (2013) concluded that the impact of risk culture on risk appetite remains a challenge for financial services organisations. This could be due to a lack of consensus on the meaning of risk culture (Hillson and Murray-Webster, 2012; Levy *et al.*, 2010), or because the concept is elusive and difficult to measure in practice (IRM, 2012). This research attempts to address these limitations and explore the influence of risk culture on risk appetite.

Objectives

An organisation's objectives are widely argued to influence its risk appetite (Carothers, 2011; Dillon *et al.*, 2011; EY, 2010; IRM, 2011; Rittenberg and Martens, 2012). This is because risk appetite aims to assist an organisation in achieving its objectives (Dillon *et al.*, 2011). If the objectives change, the corresponding risk appetite ought to change. Equally, setting an organisation's objectives is constrained by the risk appetite, because the risk

appetite dictates how risky the objectives can potentially be. Objectives in which the inherent risk level exceeds the risk appetite should be reconsidered (RIMS, 2012). However, the literature is inadequate in explaining how exactly objectives could shape the risk appetite, which is explored in this research.

Risk management capability

Another factor that is argued to shape the risk appetite is the organisation's risk management capability (Buehler and Pritsch, 2003; COSO, 2009; Stijnen, 2011), which refers to an organisation's ability to identify, assess, and manage risks, supported by its knowledge, skills, and effective risk management processes and systems (COSO, 2009; IRM, 2011). Although the literature does not explicitly specify the potential influence of risk management capability on risk appetite, it would be sensible to expect that the more capable an organisation in managing its risks, the higher risk appetite it will have. This proposed relationship is explored in this research.

History of risk taking

The practitioner risk appetite literature also suggests an organisation's history of risk taking is likely to influence its risk appetite. The history of risk taking refers to an organisation's past experiences of taking risks and the outcomes of taking those risks (Carothers, 2011). However, the practitioner literature does not explain how this factor may influence the risk appetite. It is possible to conjecture, though, that every organisation has an institutional memory, and if an organisation has been successful in taking certain risks, the risk appetite for those risks in the future may be higher, because the organisation would feel confident that it has effective knowledge and experience to take on and manage those risks. Conversely, if an organisation has been unsuccessful in taking some risks, its future risk appetite may accordingly be lower (Bouwan and Malmendier, 2015). But equally, if lessons have been learned from the failure, the future risk

appetite may not be affected. These propositions are explored in this research.

2.2.1.2 Decision-maker factors

Risk propensity of the top decision makers

In addition to organisational factors, factors pertinent to an organisation's decision makers could also influence the risk appetite. Notably, the risk propensity of the top decision makers (Allan *et al.*, 2011; Hillson and Murray-Webster, 2012), particularly the CEO and the BoD, is argued to exhibit a strong influence. This is due to the fact that risk appetite is developed with close involvement of the CEO and the BoD, so that inevitably they will align the organisation's risk appetite with their own risk propensity (Stijnen, 2011). For example, it is very unusual to see a risk-seeking organisation led by a very conservative CEO and BoD, in which case the organisation's risk appetite would not have been approved in the first place. As such, there appears to be a positive relationship between decision maker risk propensity and the risk appetite (Govindarajan, 2011), which is further explored in this research.

2.2.1.3 Environmental factors

Stakeholder demands

Beyond the boundary of an organisation, there are few environmental factors that are envisaged to shape an organisation's risk appetite. One of the most important factors seems to be the demands or expectations of the stakeholders (Carothers, 2011; Govindarajan, 2011). Generally, stakeholders consist of shareholders, employees, customers, suppliers, regulators and the wider community, all of whom have different demands and expectations about the organisation (Chatzinikoli and Toner, 2009). For example, shareholders may demand a maximum return on investment, employees may want a generous salary and a better working environment,

and customers may expect value-adding product and services. The problem is that these stakeholder demands may be competing: some demands may require a risk-seeking response while others may call for a risk-averse reaction (RIMS, 2012). Therefore, the stakeholder demands may have a mixed relationship, i.e. both positive and negative, with the risk appetite. This proposed relationship is explored in this research.

Level of competition

The literature suggests that the level of competition within the industry may be positively related with the risk appetite (Carothers, 2011; Shortreed, 2010). This is because in order to outperform the competitors, a company normally needs to increase its level of investment and also pursue continuous innovation in its products and services, all of which creates further uncertainty and therefore requires a higher risk appetite (Carothers, 2011). This positive relationship between the level of competition and the risk appetite is further examined in this research.

Overall, the practitioner literature has suggested a number of potential factors that may shape an organisation's risk appetite. Table 2.1 (p. 34) offers a summary of these factors and how they are related with the risk appetite.

Table 2.1 Evidence from the practitioner literature on factors that shape an organisation's risk appetite

Factors	Relationship with the risk appetite	Source
Organisational factors		
Risk capacity	U	Chatzinikoli and Toner, 2009; COSO, 2009; IRM, 2011; Rittenberg and Martens, 2012; Shortreed, 2010
Risk culture	U	Gontarek, 2016; Hillson and Murry-Webster, 2012; Power <i>et al.</i> , 2013; Rittenberg and Martens, 2012
Objectives	U	Carothers, 2011; Dillon <i>et al.</i> , 2011; EY, 2010; IRM, 2011; Rittenberg and Martens, 2012
Risk management capability	+	COSO, 2009; Buehler and Pritsch, 2003; Stijnen, 2011
History of risk taking	M	Bouwan and Malmendier, 2015; Carothers, 2011
Decision-maker factors		
Risk propensity of the top decision makers	+	Allan <i>et al.</i> , 2011; Govindarajan, 2011; Stijnen, 2011
Environmental factors		
Stakeholder demands	M	Carothers, 2011; Govindarajan, 2011; RIMS, 2012
Level of competition	+	Carothers, 2011; Shortreed, 2010

Note: '+' indicates the factor is positively related with the risk appetite.

'-' indicates the factor is negatively related with the risk appetite.

'M' indicates both positive and negative relationships are likely.

'U' indicates that the ways in which the factor shape the risk appetite is unknown.

2.2.2 Evidence from the organisational risk taking literature

While studies on risk appetite are limited, more research has been undertaken in the broader organisational risk taking literature, examining how and why organisations take risks and the factors that drive risk taking (e.g. Baixauli-Soler et al., 2015; Berger et al., 2014; Bhagat et al., 2015; Dhouibi et al., 2016; Harwood et al., 2009). Within this broad literature, there is a range of studies that examined the factors that influence an organisation's risk propensity, which offer valuable insights for the understanding of the factors that shape risk appetite. As this research considers 'organisational risk propensity' and 'risk appetite' as two terms representing the same concept in different contexts (p.6): risk propensity is the academic term and risk appetite is the term used by practitioners, section 2.2.2 reviews the organisational risk taking literature to identify the factors that influence organisational risk propensity.

This section comprises four sub-sections: section 2.2.2.1 briefly reviews four key studies that are particularly relevant to achieve a unified understanding of the factors that shape organisational risk propensity. The remaining three sections present other key factors that shape organisational risk propensity in the groups of organisational, decision-maker and environmental factors.

2.2.2.1 Four prominent studies of factors that influence organisational risk propensity

Baird and Thomas (1985)

Baird and Thomas's (1985) conceptual model of 'strategic risk taking', shown in Figure 2.2 (p. 36), appears to be the one of the earliest studies seeking to understand the potential factors which influence an organisation's risk propensity. The model shows five categories of factors that jointly determine an organisation's willingness to take risks, including environmental, industry, organisational, decision maker, and strategic

problem. This categorisation appears to resonate well with that of the practitioner literature, thus demonstrating that organisational, decision maker, and environmental factors are valid considerations in risk appetite.

Figure 2.2 Model of strategic risk taking

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(Source: Baird and Thomas, 1985: 237)

However, this model has some weaknesses and caution is needed when using it to analyse an organisation's risk appetite. One is that the authors did not define or explain any of the factors, leading to difficulties in understanding and interpreting these factors. Moreover, each category and each factor within a category are assumed to carry the exact same 'weight' in influencing₃₆ the organisation's risk propensity. Furthermore, certain

factors in the model, such as ‘knowledge’ and ‘framing’, are identified through studies on individual risk taking, where the appropriateness of applying the findings to the organisational context is not addressed. Unfortunately, the contribution of Baird and Thomas (1985) seemed to be neglected by others and scholarly interests on factors influencing organisational risk propensity was reinstated in the work of Pablo and Javidan (2002).

Pablo and Javidan (2002)

Examining firms’ M&A decisions, Pablo and Javidan (2002) developed a ‘risk propensity profile’ to reflect the aggregated tendency of an organisation to take risks. Four categories of factors that might shape an organisation’s risk propensity were proposed: 1) Executives’ and directors’ individual and team characteristics; 2) Organisational attributes; 3) Industry mindset; 4) Societal values and beliefs. These four categories lend support to Baird and Thomas’s (1985) model. For instance, executives’ and directors’ individual and team characteristics are part of the decision maker factors. Organisational attributes belong to organisational factors. Industry mindset and societal values and beliefs could be seen as external factors over which the organisation has no control, and thus can be viewed as environmental factors. Despite these similarities, Pablo and Javidan (2002) proposed several new factors that were not covered by Baird and Thomas (1985), including senior management’s risk taking propensity, BoD risk taking propensity, organisation’s performance, shareholder requirements and uncertainty avoidance. Further, Pablo and Javidan (2002) offer some clarification on certain factors with regard to their expected influence on the organisational risk propensity (Table 2.2, p. 38).

Table 2.2 Pablo and Javidan's conceptualisation of factors that influence organisational risk propensity

Factors	Relationship with organisational risk propensity	Explanation
Senior management's risk taking propensity	+	N/A
BoD risk taking propensity	+	the BoD has the power to disapprove any risk taking decisions which do not comply with its own willingness to take risks
Organisation's performance	-	N/A
Shareholder demands	M	If shareholders expect quick/stable dividends, they are likely to accept/reject higher level of risk taking of the organisation.
Regulatory environment	U	N/A
Competition	U	N/A
Uncertainty avoidance	-	Organisations in a country characterised by a high level of uncertainty avoidance tend to be conservative and have low risk taking propensities.
Industry recipes	*	Industry 'recipes' may contribute to the development of particular within-industry managerial orientations to what is appropriate risk.
'+/-': positive/negative relationship between the factor and risk propensity 'M': mixed relationships; 'U': the relationship is unknown '*' refers to a special explanation		

(Source: Adapted from Pablo and Javidan, 2002)

Although Pablo and Javidan (2002) is not as comprehensive as Baird and Thomas (1985) in terms of the range of factors, some factors, such as BoD risk taking propensity, shareholder requirements and competition, are consistent with the arguments in practitioner literature and are therefore further explored in this study. No explanations were provided for the other factors, namely the organisation's performance, senior management risk propensity and regulatory environment, however it is reasonable to expect that they may exert some influence on organisation's willingness to take risks. As such they are also included for further investigation. This study excludes two factors from Pablo and Javidan (2002), uncertainty avoidance and industry recipes. First of all, this study believes that the uncertainty avoidance of a country is unlikely to have a direct impact on the organisation's risk propensity. Instead, it is more likely to directly influence

the risk propensity of the BoD, which may in turn shape the organisation's risk propensity. With regard to the factor of industry recipes, it is unclear as to what exactly it entails due to a lack of definition from the authors, and thus such ambiguity has led to the exclusion of this factor.

Bhatta (2003)

Approximately at the same time as Pablo and Javidan (2002), Bhatta (2003) made another contribution to the topic of risk appetite. The research maintained that an organisation needs to take the right types and amount of risk in accordance with its risk appetite, which varies according to any single or combination of a number of factors (Table 2.3, p. 40). It is interesting to note that some proposed factors, such as organisational strategy, organisation's culture, and responsible minister's risk appetite, correspond well with the practitioner risk appetite literature. According to Bhatta (2003), 'organisational strategy' equates to the factor of 'objectives', while 'the minister's risk appetite' equates to the factor of 'risk propensity of the decision maker', who could be the CEO, the BoD or the EC. Other factors, such as the degree of organisational access to information and the age of the organisation, are also deemed important in potentially shaping an organisation's risk appetite. For example, the degree of organisational access to information, which coincides with the information systems in Baird and Thomas (1985), may positively influence the risk appetite. If an organisation can access to information quickly and efficiently, it is more likely to make timely and well-informed actions in response to risks, hence increasing its willingness to take risk. With regard to the organisation's age, Bhatta (2003) argued that it would negatively influence its risk appetite. This is rather interesting, as the relationship could also be positive, as older organisations are more likely to have more resources, be more experienced in taking risks, and have higher risk management capability and risk capacity to absorb potential loss. These above propositions are examined in this research.

Some factors in Bhatta's (2003) work, such as the fuzziness of organisation's mandate, the intractability of the problem being dealt with and the manager's style, were not clearly defined and so the nature of the influence on risk appetite was vague. These factors have therefore been excluded from this investigation.

Table 2.3 Bhatta's conceptualisation of factors that influence an organisation's risk appetite

Factors	Proposed influence on risk appetite
Fuzziness in the organisational mandate	The greater the fuzziness in the organisational mandate, the lower the risk appetite.
Intractability of the problem being dealt with	The greater the intractability of the problem the organisation is dealing with, the lower the risk appetite.
Organisational objectives	The more aggressive the organisational objectives, the greater the risk appetite.
Degree of organisational access to information	The greater the degree of organisational access to relevant information, the greater the appetite for risk.
Organisation's behaviour and culture	The more stable an organisation's behaviour and culture, the greater the risk appetite.
Manager's style	The more aggressive the manager's style, the greater the risk appetite.
Responsible minister's risk appetite	The greater the responsible minister's risk appetite, the greater the risk appetite.
Age of the organisation	The greater the age of the organisation, the less the risk appetite.

(Source: Adapted from Bhatta, 2003)

Harwood et al. (2009)

The works of Baird and Thomas (1985), Pablo and Javidan (2002) and Bhatta (2003) are all conceptual research. The study of Harwood *et al.* (2009) seems to be the first empirical research that holistically examines factors influencing organisational risk propensity. Using a grounded theory approach, they developed a framework, comprising ten constituents that determine an organisational risk propensity (Table 2.4, p. 42). Notably, the terms used by Harwood *et al.* (2009) to describe the ten constituents are largely different from those commonly seen in the literature, with one exception being the degree of regulation. The reason for this could well be the use of the grounded theory approach, which emphasises on preserving the perspectives of the original data (Glaser and Strauss, 1967), so that the authors retained the term used by their informants. Despite this, based on

the explanations of Harwood *et al.* (2009) some corresponding parallels can be identified in the literature. For example, risk rhetoric is similar to the notion of framing, which is a factor in the model of Baird and Thomas (1985). Risk rewards may coincide with that of remuneration (Sanders and Hambrick, 2007). Risk review may be better termed as risk reporting (Deumes, 2008; Linsley and Shrives, 2005). Finally, management style, referring to the extent to which management actions are transparent in the organisation (Harwood *et al.*, 2009), could be named as transparency of actions, a factor which is negatively associated with organisational risk propensity (Houston *et al.*, 2010; John *et al.*, 2008). The remaining constituents, risk approach, risk encouragement, risk perspective, risk rhetoric and risk ownership, are arguably the features or characteristics of an organisation's risk culture (Harwood *et al.*, 2009), which has been recognised an important factor influencing an organisation's risk appetite (Gontarek, 2016; Hillson and Murry-Webster, 2012; Power *et al.*, 2013; Rittenberg and Martens, 2012).

According to Harwood *et al.* (2009), this framework can be used as a basis for a survey to measure an organisation's risk propensity. Each constituent represent a continuum ranging from risk-averse to risk-seeking. The organisation's risk propensity is the average of the sum of all constituents. While one may question this methodology, it does offer a viable means to gauge an organisation's risk propensity.

Table 2.4 Constituents of organisational risk propensity

Constituents	Proposed influence on risk propensity
Risk approach	The extent to which risks are managed proactively, ranging from a reactive ‘crisis management’ mode to a proactive ‘planned approach’. The higher the extent, the higher the risk propensity.
Risk horizon	The period of time between identifying a potential risk and the expected or actual realisation of the risk, ranging from short term to long term. The longer the term, the higher the risk propensity.
Management style	The level of transparency of management actions. The lower the transparency, the higher the risk propensity.
Degree of regulation	The level of external regulation, ranging from ‘regulated’ environment to ‘unregulated’ environment. The less the regulation, the higher the risk propensity.
Risk encouragement	The level of support for risk taking, ranging from ‘cautious encouragement’ to ‘positive encouragement’. The more support for risk taking, the higher the risk propensity.
Risk perspective	Whether decision makers view risk as having ‘negative’ or ‘positive’ connotations. The more positive view, the higher the risk propensity.
Risk reviews	The frequency of reviews, updates and revisions of potential risks, ranging from ‘static’, meaning the review is a one-off exercise, to ‘dynamic’, which refers to ongoing updates and revisions. The more frequent of the review, the higher the risk propensity.
Risk rhetoric	The language and phraseology used by team members when communicating potential risks. Ranging from ‘indirect’ communication, such as ‘If...then...’ to ‘direct’ communication. The more direct, the higher the risk propensity.
Risk rewards	Rewards for risk taking, ranging from ‘non-existent’ to ‘proportionate’. The higher the rewards, the higher the risk propensity.
Risk ownership	The nature of ownership that individuals have of the risks once they have been identified and allocated to their responsibility. Ranging from ‘forced’ to ‘voluntary’. The more voluntary, the higher the risk propensity.

(Source: Adapted from Harwood *et al.*, 2009)

Overall, the abovementioned four key studies (Baird and Thomas, 1985; Bhatta, 2003; Harwood *et al.*, 2009; Pablo and Javidan, 2002) contribute to a preliminary understanding of the ‘big picture’ depicting the factors that could shape an organisation’s risk appetite. In addition to these four studies, the broader organisational risk taking literature has suggested a number of other factors that may shape the risk appetite. In order to holistically analyse these factors, as with the practitioner literature they have also been grouped into organisational, decision-maker, and environmental factors. This categorisation has been supported by several organisational risk scholars (e.g. Baird and Thomas, 1985; Palmer and Wiseman, 1999). The following sections discuss these factors.

2.2.2.2 Organisational factors

Performance of the organisation

Due to the prominence of BTOF (Cyert and March, 1963) and TRT (Staw *et al.*, 1981), an organisation's performance is perhaps the most studied factor that shapes an organisation's willingness to take risk. Performance refers to an organisation's actual performance compared to its aspirations, which is not limited to the financial sense. While there is general consensus that performance that meets or exceeds aspirations reduces the organisation's willingness to take risk (Wiseman and Bromiley, 1996), because organisations tend to avoid taking on extra risk that might undermine its current performance, disparity arises when considering the effect of underperformance on organisational risk propensity, i.e. the performance level is below the aspirations.

There are two opposing perspectives in the literature concerning the effect of underperformance on the organisation's willingness to take risk. One perspective, which seems to reflect most empirical studies in this regard, suggests an increased organisational risk propensity in response to underperformance, because the potential return from taking on extra risks may compensate the organisation's underperformance (Bromiley, 1991; Chen and Miller, 2007; Greve, 1998). The other suggests that performance below aspirations will likely to reduce the organisational risk propensity, because poor performance will trigger a rigid and change-resistance response from the decision makers, who will then steer the organisation back to their established standard operating procedures and will operate in domains where the organisation is familiar with and has greatest control (Cameron *et al.*, 1987; Chattopadhyay *et al.*, 2001; Jung and Bansal, 2009; Staw *et al.*, 1981).

Contributing to the above debate, Shimizu (2007) argues that it is possible for an underperforming organisation to exhibit both risk-seeking and risk-averse behaviours, which depends on how big the performance gap is. When

performance is not far from the aspiration, organisations tend to view this gap as repairable by taking on additional risk. However, when the performance is far from the aspiration, organisations will no longer perceive the gap as repairable but instead as a threat to their survival, hence the willingness to return to basics and cut off risk-taking activities (Gomez-Mejia *et al.*, 2007).

The presence of other organisational factors may also shape the effect of performance on organisational risk propensity. For example, Audia and Greve (2006) suggest that organisational size, measured by the amount of available resources, moderates the relationship between performance below aspirations and risk propensity. Specifically, large organisations, which tend to possess significant amount of resources and thus be buffered from the threat of failure, are more likely to make risk-seeking decisions in response to underperformance. On the contrary, small firms with limited resources are more vulnerable than large firms, and therefore are more likely to perceive a drop in performance as a step closer to organisational failure, thus triggering a reduced willingness to take risks. The effect of performance on an organisation's risk appetite is explored in this research.

Ownership structure

Another factor likely to influence risk propensity is an organisation's ownership structure, which depicts the types and composition of different shareholders within an organisation (Tricker, 2012). Typically, the shareholders can come from both inside and outside of the organisation. While inside owners often refer to executives and managers, outside owners could include individuals, families, and institutional investors. An organisation may be owned largely by either inside or outside owners, but the degree of their influence on organisational risk propensity varies (Mishra, 2011). For example, Saunders *et al.* (1990) compared the risk propensities of outsider-owned and insider-owned organisations, and found that the former are generally more risk-seeking than the latter. They argued that outside-owners are opportunistic and more inclined to take risks for a

higher and quicker return, whereas inside-owners have other key concerns such as the security of their job position (Jensen and Meckling, 1976; May, 1995).

With regard to an insider-owned organisation, the level of insider ownership has been found to be positively associated with the organisational risk propensity, i.e. the higher level of the insider ownership, the more risks an organisation tends to take (Anderson and Fraser, 2000; Carpenter, *et al.*, 2003). The reason may be that insiders have their personal wealth vested in the organisation, so that they want to take more risks to maximise the shareholder value (May, 1995; Saunders *et al.*, 1990). For an outsider-owned organisation, the relationship between the managerial ownership and the organisational risk propensity remains positive, but it seems that the outside owners have the major impact (Nguyen, 2012; Wright *et al.*, 1996). For example, Mishra (2011) found that a company's risk taking is positively related with the number of large external shareholders. Further, different types of outside owners may influence the organisational risk propensity in different ways. For instance, family investors have been found to be rather conservative and thus impose a negative influence on organisational risk propensity, because they want to transfer their ownership to the next generation (Kraiczy *et al.*, 2015; Paligorova, 2010). On the other hand, institutional investors, such as banks, mutual funds, and investment companies, are argued to demand quick returns (Oak and Upneja, 2009; Weissmann, 2012) and thus exhibit a positive influence on organisational risk propensity (Barry *et al.*, 2011; García-Kuhnert *et al.*, 2015). Overall, the effect of ownership structure on an organisation's risk appetite is explored in this research.

Firm size

Firm size is argued to have a positive relationship with an organisation's risk propensity (Wall, 2005a). Commonly measured by the total amount of available resources (Audia and Greve, 2006), large organisations have more resources than small organisations, which can be used to support desired

risk-taking activities and also buffer from potential failures. Therefore, the risk appetite of a large organisation is often found to be higher than a small organisation. For example, the study of 50 US-based companies in the petroleum industry by Wall (2005b) found a significant positive correlation between firm size and organisational risk propensity.

Another explanation of the positive association between firm size and risk propensity is that large organisations may have a too-big-to-fail mentality (Bhagat *et al.*, 2015; Chang, 2010; Mattana *et al.*, 2015). This mentality assumes that the government and the public will intervene and save the organisation in case of a risk-taking failure (Mattana *et al.*, 2015). A number of empirical studies in the banking sector have confirmed the existence of this mentality in large organisations and its effect on organisational risk propensity. For example, Gropp *et al.* (2014) and Volz and Wedow (2011) found that government's bailout guarantees of large banks in many countries has led to the formulation of this mentality in decision makers, which substantially increased the banks' willingness to take risks. The effect of firm size on an organisation's risk appetite is investigated in this research.

Need for innovation

Another factor that might influence an organisation's risk propensity is the organisation's need for innovation. While some scholars argue that innovation is an indicator of an organisation's risk propensity (Baysinger and Hoskisson, 1989; Chen, 2009), increasing evidence has shown that the increasing need for innovation requires an organisation to have a higher willingness to accept and engage in more risky product and service innovation trials, so that the organisation can maintain its competitive advantage over its rivals. As such, the need for innovation is positively associated with the organisational risk propensity. This relationship is further examined in this research.

Perceived level of risks in the external environment

An organisation's perceived level of risks in the external environment may be negatively associated with its willingness to take risks. In other words, the higher the perceived risk in an organisation's external environment, the lower the propensity to take risk. For example, Panzano and Roth (2006) found that mental healthcare providers' propensity to adopt innovative mental health practices is negatively influenced by its perceived risk of their patients' acceptance resulted from adopting the practice. However, some scholars argue that an organisation's risk perception does not influence its risk propensity, but influences the actual risk behaviour. For instance, Kull *et al.* (2014) found that firms who perceive a higher level of risk in the external context chose more reliable, but also more expensive supplier, a behaviour considered to be risk-averse. The effect of perceived level of risks in the external environment on an organisation's risk appetite is explored in this research.

Transparency

Corporate transparency refers to the extent to which relevant and reliable information about an organisation, such as its performance, governance, business model and strategy, is available to its external stakeholders (Bushman, 2015; Jayaraman and Kothari, 2013). Its potential effect on organisational risk taking is an under-researched topic and existing contributions are almost exclusively concentrated in the banking sector. The key argument is that transparency tends to undermine an organisation's willingness to take risks (Houston *et al.*, 2010; Nier and Bauman, 2006; Wang *et al.*, 2015). This is because increased transparency provides stakeholders with more information about the organisation, so that they can better monitor its performance and scrutinise the organisation's decisions (Jayaraman and Kothari, 2013; Leuz *et al.*, 2009). The fear of stakeholders' reactions tends to discourage the decision makers from taking risks (Dhouibi *et al.*, 2016), therefore leading to a lower risk appetite.

However, having a lower risk appetite due to increased transparency is not necessarily unfavourable. Several scholars pointed out that increased transparency could encourage the organisation to act more prudently and improve risk management practices, therefore avoiding careless risk-taking decisions (Dhouibi *et al.*, 2016; Wang *et al.*, 2015). For example, Bourgain *et al.* (2012) found that sufficient transparency is necessary to ensure safe risk management in banks. Hirtle (2007) discovered that greater information disclosure is associated with more efficient and better quality risk-taking, which subsequently improves the organisation's performance. Overall, the effect of transparency on an organisation's risk appetite is explored in this research.

2.2.2.3 Decision-maker factors

Based on the agency perspective (Eisenhardt, 1989) and the upper echelon theory (Hambrick and Mason, 1984), an organisation's top decision makers (i.e. the BoD and the EC) and their characteristics are likely to play a huge role in influencing the organisation's willingness to take risks (Belghitar and Clark, 2012; Kraiczy *et al.*, 2015; Lewellyn and Muller-Kahle, 2012). This section discusses the frequently mentioned decision maker factors that may influence the organisation's risk appetite.

BoD size

One stream of research has examined whether the composition of BoD affect the organisation's risk propensity, within which a number of scholars focused on the potential effect of BoD size on organisational risk propensity (Cheng, 2008; Nakano and Nguyen, 2012; Pathan, 2009; Wang, 2012). For example, Cheng (2008) found that UK firms with larger BoDs tend to take less risk. The reason is that larger BoDs have greater difficulty in reaching consensus in risky decisions, and thus the final decision is often a less extreme, compromised position among the individual positions of the BoD (Kogan and Wallach, 1964). Likewise, the empirical studies of Pathan (2009) and Wang (2012) also demonstrated that increasing BoD size tends to

reduce organisational risk taking. Nakano and Nguyen (2012) added that this negative effect of BoD size on organisational risk propensity might be moderated by the number of risk taking choices available to the organisation. Goodstein et al. (1994) argued that the negative effect might not always in place. Overall, the potential relationship between BoD size and risk appetite is explored in this study.

BoD diversity

While Goodstein *et al.* (1994) found no significant correlation between BoD size and corporate risk taking, BoD diversity was found to negatively impact on risk taking. The authors explained that higher diversity among the BoD may lead to conflicting views about engaging risky activities, and therefore limit the BoD's ability to take timely decisions as a whole. These authors conclude that organisations with diverse BoDs are less likely to take risks than those with homogeneous boards. Supporting this argument, Lenard *et al.* (2014) and Gulamhussen and Santa (2015) found that a more diverse BoD (in terms of gender) shows less willingness to take risks than a more homogeneous BoD. However, such a relationship did not appear in the recent study of Sila *et al.* (2016). Nevertheless, whilst BoD diversity reduces risk propensity, it has been argued to improve the quality of the final decisions due to the consideration of different views (Kor, 2006; Rhode and Packel, 2010).

While the above research highlights the crucial influence of BoD on firm risk propensity, the upper echelons scholars (e.g. Finkelstein and Hambrick, 1996) argue that an organisation's top management team, i.e. the EC, have a stronger influence on the organisation's behaviour than the BoD. In this regard, the diversity of the EC is likely to have a more influential role than the BoD on risk propensity. The study of Berger *et al.* (2014) into bank risk taking concluded that a bank with a diverse EC (a mix of age, gender and education background) tends to have a lower risk propensity. A similar negative relationship was also confirmed in the study of Baixauli-Soler *et al.* (2015), where gender diversity among the executive team was found to

discourage the organisation to take risk. Overall, the effect of decision maker diversity on an organisation's risk appetite is explored in this research.

Performance-based executive remuneration

Performance-based executive remuneration has been a popular topic for organisational risk taking researchers. While the remuneration package often includes a mix of cash bonus and stock options (Chien *et al.*, 2013), most scholars seem to have focused on how stock options may influence an organisation's risk propensity (Coles *et al.*, 2006; Sanders and Hambrick, 2007; Wen and Chen, 2008; Wright *et al.*, 2002; Wright *et al.*, 2007). For example, Wen and Chen (2008) studied 337 CEOs in the insurance industry during 1992 to 2004 and found that CEO stock options are a significant driver of an organisation's propensity to take risk. From an agency perspective, this is because the stock options have effectively aligned the interest of the executives to the shareholders. Assuming that higher risk yields higher return, the stock options encourage the CEO to take more risks in order to maximise shareholder returns as well as his own profits (Eisenmann, 2002). Despite some exceptions (Honoré *et al.*, 2015; Kim *et al.*, 2008), most studies on executive remuneration support this finding (Sanders and Hambrick, 2007; Wright *et al.*, 2007). Nevertheless, Wright *et al.* (1996) argued that such a positive influence may become negative when the CEO has accumulated a fair amount of stocks, in which case the CEO would want to protect the personal wealth vested in the organisation, thus triggering the organisation to become conservative and risk-averse (Devers *et al.*, 2008; Seo and Sharma, 2013). As such, the inappropriate use of stock options has led to various firm-level project failures, such as unsuccessful M&As (Honore *et al.*, 2015) and insufficient innovation projects (Graham *et al.*, 2005). In other words, the stock options exhibit an inverted U-shaped influence on organisational risk propensity (Baixauli-Soler *et al.*, 2015). Furthermore, Seo and Sharma (2013) warned that the performance-based remuneration overly focusing on achieving performance goals may not necessarily promote constructive risk-seeking behaviour. The potential

impact of performance-based remuneration on risk appetite is explored in this research.

CEO emotions

With the underlying belief is that CEO has the ultimate power and authority for an organisation's decision making (Barker and Mueller, 2002; Herrmann and Datta, 2005), some scholars have investigated the effect of CEO emotions on organisational risk taking. Drawing on extensive psychology research where an individual's emotional state have been found to affect how he/she would take risk (Chou *et al.*, 2007; Forgas, 1995; Grable and Roszkowski, 2008; Isen and Patrick, 1983; Kliger and Levy, 2003), it is reasonable to assume that the emotions of the CEO may shape his/her decisions related to organisational risk taking. For example, Delgado-Garcia *et al.* (2010) analysed the influence of the stable, long-term emotional traits of CEOs on bank risk taking. Their results show that negative CEO emotions reduce the organisation's risk propensity. The potential impact of CEO emotions on risk appetite is further explored in this research.

2.2.2.4 Environmental factors

The influence of an organisation's external environment on its risk decision making cannot be overlooked (Palmer and Wiseman, 1999; Voss *et al.*, 2008). While research has identified several environmental factors that are likely to influence organisational risk propensity, such as regulation (Harwood *et al.*, 2009), shareholder demands (Pablo and Javidan, 2002), economy (Baird and Thomas, 1985), and competition (Pablo and Javidan, 2002), the question of how these factors may individually influence organisational risk propensity remains largely unknown.

Regulation

The regulation by which an organisation has to abide by has been argued to influence an organisation's risk propensity (Bargeron *et al.*, 2010; Cohen *et*

al., 2013; Devers *et al.*, 2008; Hoque *et al.*, 2015). Since regulation is typically introduced to encourage desirable behaviour and prevent wrongdoings, scholars appear to agree that the regulation is likely to reduce the organisation's propensity to take risk. However, empirical evidence on the effect of regulation on organisational risk propensity is rather limited and only a few studies have investigated this issue. For instance, Konishi and Yasuda (2004) examined the determinants of risk taking in Japanese banks and found that the required compliance with a restrictive regulation decreased the bank's risk propensity. Barger *et al.* (2010), Cohen *et al.* (2013) and Devers *et al.* (2008) found that the introduction of the Sarbanes-Oxley Act has greatly undermined the organisations' willingness to take risk for public companies in the US. The potential impact of regulation on risk appetite is further explored in this research.

Level of competition

A number of scholars have argued that the level of competition among rivals may influence an organisation's willingness to take risks (Jimenez *et al.*, 2013; Martinez-Miera and Repullo, 2010; Tabak *et al.*, 2012; Yeyati and Micco, 2007). Competition encourages organisational efficiency and information sharing, and creates a sense of urgency to continuously improve oneself (Liu *et al.*, 2012). While the conventional view suggests that competition induces risk taking (Boyd and De Nicolo, 2005; Martinez-Miera and Repullo, 2010), an increasing number of studies, particularly in banking, have shown contradictory findings. For example, while Liu *et al.* (2012) found no relationship between competition and organisational risk taking in the South East Asia banking sector, the large-scale study of Yeyati and Micco (2007) showed that competition reduces banks' willingness to take risk. These results differ from Tabak *et al.* (2012), who found an inverted U-shaped relationship between competition and bank risk. In other words, banks tend to show a higher risk propensity when facing average level of competition, and show a lower risk propensity when facing either low or high level of competition. Nevertheless, most of these studies could

not offer a possible reason underpinning the observed relationships between competition and firm risk taking, which this research seeks to explore.

Overall, the above review into the organisational risk taking literature has identified a number of factors that influence an organisation's risk propensity (Table 2.5, p. 54). These factors have complemented the practitioner literature and considerably enriched the 'picture' of the factors that may shape an organisation's risk appetite. However, for several reasons there is a need to go beyond the scope of the organisational risk taking literature to continue exploring the potential factors that shape an organisation's risk appetite. Firstly, existing literature on organisational risk propensity, while larger than the practitioner literature, is still relatively limited (Harwood *et al.*, 2009). Also, many of the studies reviewed herein have examined the construct of organisational risk taking, which is often interpreted as the actual risk behaviour. While risk propensity and risk behaviour are closely related but different concepts (Das and Teng, 2001; Sitkin and Pablo, 1992; Sitkin and Weingart, 1995), it is unclear whether factors influencing organisational risk behaviour also influence risk propensity. Furthermore, there is a more extensive and advanced literature on individual risk taking, including considerable research into the factors that influence an individual's risk propensity. Several organisational risk taking researchers (Baird and Thomas, 1985; Harwood *et al.*, 2009; Sitkin and Pablo, 1995) have argued that there are parallels between individuals and organisations and organisational risk taking researchers should draw upon the rich insights of the literature on individual risk taking. Therefore, the following section examines pertinent research on individual risk taking and identifies the factors that shape an individual's risk propensity.

Table 2.5 Evidence from the organisational risk taking literature on factors that influence an organisation's risk propensity

Factors	Relationship with risk propensity	Source
Organisational factors		
Aggressiveness of objectives	+	Bhatta, 2003
Degree of access to information	+	Baird and Thomas, 1985; Bhatta, 2003
Organisation's age	-	Bhatta, 2003
Risk reporting	+	Deumes, 2008; Harwood <i>et al.</i> , 2009; Linsley and Shrivies, 2005
Transparency of actions	-	Harwood <i>et al.</i> , 2009; Houston <i>et al.</i> , 2010; John <i>et al.</i> , 2008; Nier and Bauman, 2006; Wang <i>et al.</i> , 2015;
Performance	M	Bromiley, 1991; Chen and Miller, 2007; Gomez-Mejia <i>et al.</i> , 2007; Greve, 1998; Jung and Bansal, 2009; Shimizu, 2007
Ownership structure	M	Anderson and Fraser, 2000; Carpenter, <i>et al.</i> , 2003; Mishra, 2011; Saunders <i>et al.</i> , 1990
Firm size	+	Bhagat <i>et al.</i> , 2015; Chang, 2010; Mattana <i>et al.</i> , 2015; Wall, 2005a
Need for innovation	+	Baysinger and Koskisson, 1989; Chen, 2009
Perceived level of risk in the environment	-	Kull <i>et al.</i> , 2014; Panzano and Roth, 2006
Decision-maker factors		
BoD risk propensity	+	Bhatta, 2003; Pablo and Javidan, 2002
BoD size	M	Cheng, 2008; Goodstein <i>et al.</i> , 1994; Nakano and Nguyen, 2012; Pathan, 2009; Wang, 2012;
BoD diversity	M	Gulamhussen and Santa, 2015; Lenard <i>et al.</i> , 2014; Sila <i>et al.</i> , 2016
EC risk propensity	+	Bhatta, 2003; Pablo and Javidan, 2002
CEO emotions	+	Delgado-Garcia <i>et al.</i> , 2010
Performance-based remuneration	M	Baixaui-Soler <i>et al.</i> , 2015; Coles <i>et al.</i> , 2006; Honoré <i>et al.</i> , 2015; Seo and Sharma, 2013; Sanders and Hambrick, 2007; Wen and Chen, 2008; Wright <i>et al.</i> , 2007
Environmental factors		
Degree of regulation	-	Bargeron <i>et al.</i> , 2010; Cohen <i>et al.</i> , 2013; Hoque <i>et al.</i> , 2015
Shareholder demands	M	Pablo and Javidan, 2002
Economy	+	Baird and Thomas, 1985
Level of competition	M	Jimenez <i>et al.</i> , 2013; Martinez-Miera and Repullo, 2010; Tabak <i>et al.</i> , 2012; Yeyati and Micco, 2007

Note: '+'/'-' indicates the factor is positively/negatively related with risk propensity.
'M' indicates both positive and negative relationships are likely.

2.2.3 Evidence from the individual risk taking literature

Within the literature on individual risk taking, individual risk propensity (also termed as risk tolerance) has long been a popular research topic (Cho and Lee, 2006; Kull *et al.*, 2014; Roszkowski and Davey, 2010). In an attempt to understand the risk propensity of an individual, scholars have highlighted the need to clarify a key conceptual issue, concerning whether individual risk propensity is a pre-dispositional personality feature that is stable over time, or a behavioural tendency that is not only determined by the individual's biological makeup and early childhood experiences but also varies according to changes in one's external environment (Blais and Weber, 2006; Roszkowski and Davey, 2010). This assumption is critical in determining the scope of the potential factors that influence an individual's risk propensity. While some researchers argue that individual risk propensity is a fixed personality trait (Roszkowski and Davey, 2010; Schoemaker, 1993), much more empirical evidence has suggested that it is a situational behavioural tendency that varies according to changes in both internal and external environments (Cho and Lee, 2006; Kull *et al.*, 2014; Nicholson *et al.*, 2005).

Adopting the view of the behavioural tendency, Irwin (1993) developed a conceptual model to explain the factors that drive the risk taking of adolescents. The model identifies two broad groups of factors that contribute to individual risk taking, namely, 'biopsychosocial' and 'environmental' factors. Biopsychosocial factors refer to inherent characteristics relating to an individual's biological, psychological, and social-cultural aspects, which are endogenous to an individual. Environmental factors, on the other hand, are exogenous and include aspects of an individual's social environment (Irwin, 1993). This classification later became the foundation of many studies investigating the factors that influence individual risk propensity (Grable, 2000; Grable and Joo, 2004; Grable and Lyntton, 1999; Harlow and Brown, 1990). For this reason, this classification is adopted in this research to structure the discussion on frequently mentioned factors that shape individual risk propensity.

2.2.3.1 Biopsychosocial factors

Gender

The most widely studied factor affecting an individual's risk propensity appears to be gender (Gilliam *et al.*, 2010; Hariharan *et al.*, 2000; Neelakantan, 2010; Wang *et al.*, 2009; Watson and McNaughton, 2007). It is generally assumed that women tend to be more conservative and risk-averse than men. This might be explained by biological differences between men and women as well as by certain socio-cultural gender differences (Felton *et al.*, 2003). As to such differences, women have been found to produce higher levels of the enzyme monoamine oxidase that constrains the tendency to seek sensations, thereby reducing the possibility of taking risks (Zuckerman, 1994). Secondly, as contended by Slovic (1966), women are pressured from childhood into behaviours determined by gendered cultural roles, which might lead to a lower willingness to take risk. Girls who experience restrictive parenting during childhood tend to be resistant to taking risks in later life (Byrnes, 1998).

While Feng and Seasholes (2008) and Masters (1989) and could not find any significant difference between male and female risk propensity, most empirical evidence have confirmed the assertion that women are more risk averse than men (Hariharan *et al.*, 2000; Neelakantan, 2010; Wang *et al.*, 2009; Watson and McNaughton, 2007). For instance, the results of the large scale study by Neelakantan (2010), comprising a population of 18,469 with equal number of men and women, suggested that women, on average, is more risk averse than men. The author, however, warned that this observed gender difference in risk propensity could be different if environmental factors are taken into account. Supporting this, Schubert *et al.* (1999) found that when frame (an environmental factor) is considered, women are more risk-averse in a gain frame than men but appear more risk-seeking in a loss frame. This finding, however, contradicts to Powell and Ansic (1997), who found that women have a consistently lower risk propensity than men,

irrespective of environmental factors, including frame. As such, Powell and Ansic (1997) argued that gender difference in risk propensity is a general trait rather than environment-dependent.

Age

Another factor that is frequently argued to influence an individual's risk propensity is age (Faff *et al.*, 2009; Mata *et al.*, 2016; Pavic and Vojinic, 2012; Wang *et al.*, 2009). Empirical results of the effect of age on individual risk propensity appear to be mixed. While the conventional view seems to suggest that age has a negative and nonlinear relationship with individual risk propensity (Faff *et al.*, 2009; Mata *et al.*, 2016; Wang *et al.*, 2009), as older people have less time to recover from potential losses (Grable and Lytton, 1999; Purkayastha, 2008), many empirical studies found that an individual's risk propensity increases with age (Grable and Lytton, 1999; Pavic and Vojinic, 2012). Despite these two competing perspectives, several other studies reported a mixed relationship between age and risk propensity (Al-Ajmi, 2008; Ardehali *et al.*, 2005; Faff *et al.*, 2008; Riley and Chow, 1992). For example, Faff *et al.* (2008) found that the mixed relationship displays a U-shape, i.e. the risk tolerance will decrease to a certain point and then start to increase. This 'turning point', according to Riley and Chow (1992), might be around the time of retirement. But Ardehali *et al.* (2005) suggested that it could well last until one reaches around the age of 75-80. However, Al-Ajmi's (2008) study into the determinants of risk propensity of individual investors in Bahrain revealed an inverted U-shaped relationship between risk propensity and age, suggesting that risk propensity increases with age until the investor approaches the retirement age.

Whilst most of the empirical studies reported a relationship between age and individual risk propensity, several studies could not find a significant relationship (Grable and Lytton, 1998; Williams and Narendran, 1999). Additionally, it is suggested that other factors, such as the level of wealth, might moderate the relationship between age and risk propensity. For example, Morin and Suarez (1983) analysed the 1970 Canadian Survey of

Consumer Finance data and found that the level of wealth could change the nature of the relationship between age and risk propensity. In particular, individual risk propensity decreases with age when the individual has a low level of wealth, whereas when the individual has a high level of wealth, the risk propensity increases with age.

Problem framing

Informed by the PT (Kaheman and Tversky, 1979), an individual's risk propensity is also argued to be pertinent to the way in which a risk situation is framed (Tversky and Kahneman, 1981). The term 'framing', according to Kuhberger (1998: 24), refers to 'the wording of formally identical problems, i.e. to a semantic manipulation of prospects whereby the exact same situation is simply re-described'. Tversky and Kahneman (1981) posited that people exhibit contradictory risk propensities when a risk situation is framed in two different ways, i.e. positively (gain) and negatively (loss). Generally there is a risk-averse tendency in positively framed choices, and a risk-seeking tendency in negatively framed choices. This is known as the 'framing effect', found in both hypothetical and real-life situations (Kuhberger *et al.*, 2002).

Empirical evidence of the effect of framing on individual risk propensity contains a mixed opinion. For example, Roszkowski and Snelbecker (1990) examined 212 financial services professionals and observed a general pattern consistent with the framing effect. Kuhberger *et al.* (1999) found that framing as a factor exhibits a stronger influence in individual risk propensity than other factors, such as the size of payoff. However, Fagley and Kruger (1986) discovered no framing effects when they asked a large group of psychologists to respond to a hypothetical scenario that involves school dropout prevention programme. The results suggested that people do not necessarily become risk-seeking in the negative frame.

The impact of the framing effect on individual risk propensity might also be moderated by other factors. For example, Seo *et al.* (2010) examined the

role of affect and framing on investor risk decision making. While the framing effect was observed, they also found that the positive affect could not only reduce the tendency to become more risk-averse in the gain frame, but also reduce the tendency to become risk-seeking in the loss frame, therefore suggesting a moderating effect of positive affect on the relationship between framing and individual risk propensity.

Marital status

Another strand of research has focused on whether marital status affects individual risk propensity, where two opposing schools of thoughts seem prevalent. One school postulates that individuals who are single are more willing to take risks than those who are married (Daly and Wilson, 2001; Grable and Lytton, 1998; Hallahan *et al.*, 2004). An explanation is that marriage places extra responsibilities on both individuals and highlights the need to maintain the relationship, so that married individuals would be less willing to take risk that could endanger the relationship (Grable and Lytton, 1998). Individuals who are single do not have these extra responsibilities, and they also have less to lose compared to their married counterparts (Daly and Wilson, 2001).

In contrast, the other school of thoughts argues that individuals who are married are more willing to take risks than individuals who are single (Masters, 1989; Save-Soderbergh, 2003; Watson and McNaughton, 2007). According to Save-Soderbergh (2003), married couples are likely to have a second stream of income which would provide extra protection if their own risky choice turns out to be a loss, suggesting that marriage encourages individual risk propensity.

Empirical studies of the effect of marital status on individual risk propensity seem inconclusive. Chaulk *et al.* (2003), Grable and Joo (2004) and Hallahan *et al.* (2004) provided empirical support for the notion that married individuals are less willing to take risks than single individuals. Even so, Ardehali *et al.* (2005) found that rather than being significantly more, single

individuals were only slightly more willing to take risks than those who married. On the other hand, there are ample empirical studies offering contradictory evidence (Grable, 2000; Masters, 1989; Watson and McNaughton, 2007). For example, Masters (1989), investigating the effect of a number of demographic variables on individual risk propensity, found that married people showed higher risk propensity than those who are single.

Education

Many studies have also highlighted the impact of education on an individual's risk propensity (Al-Ajmi, 2008; Gilliam *et al.*, 2010; Grable and Joo, 2004; Pavic and Vojinic, 2012). It is commonly assumed that individuals with a higher level of education are more willing to take risks, because they are likely to have a stronger ability in terms of understanding and processing the risk information, as well as estimating the consequences of taking the risk (Grable and Lytton, 1998). This stronger cognitive ability would make a well-educated individual more willing to take certain risks. Grable and Lytton (1998) suggested that education is the most reliable indicator for individual risk propensity. Despite the studies of Masters (1989) and Williams and Narendran (1999) where no significant relationship between education and individual risk propensity was found, most empirical studies of education and individual risk propensity largely support the positive relationship. Many large-scale quantitative studies (Al-Ajmi, 2008; Grable and Joo, 2004; Pavic and Vojinic, 2012) found evidence that a higher level of education is strongly associated with higher willingness to take risks.

2.2.3.2 Environmental factors

Child presence

Child presence has also been argued to affect an individual's risk propensity (Chaulk *et al.*, 2003; Faff *et al.*, 2008; Pavic and Vojinic, 2012; Wang *et al.*, 2009). The general belief is that individuals with children have lower risk

propensity than childless individuals (Wang *et al.*, 2009), because those with children require more resources to ensure the meeting of survival needs, and therefore are more reluctant to take risky investments (Chaulk *et al.*, 2003). Another reason could be that individuals who have children are more likely to require certainty in return on investments, so that they would take less risk to ensure financial security for their dependents (Venter, 2006).

Empirical evidence of the effect of child presence on individual risk propensity seems inconclusive. For example, while Jianakoplos and Bernasek (1998) and Pavic and Vojinic (2012) observed that risk propensity is negatively correlated with the number of children, Faff *et al.* (2008) found that risk propensity increases with the number of dependent children. Other studies such as Hallanhan *et al.* (2003) and Bellante and Gren (2004) did not notice any significant relationship between risk tolerance and the number of children. Furthermore, other biopsychosocial and environmental factors, such as age and wealth, appear to moderate the relationship between individual risk propensity and child presence. For example, Chaulk *et al.* (2003) noted that although individuals with children are generally risk-averse, when they have a high level of wealth, their willingness to take risks appear to be higher than childless individuals. The authors also found that young individuals with children showed a lower willingness to take risk compared to older individuals with children.

Knowledge

A number of scholars have investigated whether the level of knowledge, acquired through either experience or education, shapes an individual's risk propensity (Grable, 2000; Masters, 1989; Watson and McNaughton, 2007). Grable (2000) argued that similar to education, knowledge is also a key factor underpinning an individual's willingness to take risks. In some cases, knowledge has been proved as an even more reliable factor than education, for instance in the study of Masters (1989). Watson and McNaughton (2007) found that individuals who have deeper knowledge about investments are more likely to invest in risky assets. They, therefore, suggested that

knowledge is positively related to individual risk propensity. It is important to note that a critical aspect of knowledge is the individual's previous experience. As observed by Post *et al.* (2008) and Thaler and Johnson (1990), prior experience, regardless of the outcome (i.e. positive or negative), tends to increase an individual's knowledge about a particular risk and boost his/her future tendency of taking that risk.

Rewards

Since risk taking is motivated by rewards, several scholars have studied whether the level of the expected rewards shapes an individual's risk propensity (Holt and Laury, 2002; Kachelmeier and Shehata, 1992; Post *et al.*, 2008). For example, Kachelmeier and Shehata (1992) examined the effect of high monetary rewards on individual risk propensity in China. They found no difference in risk propensity when the rewards are non-existent or at a low level. However, when the monetary rewards reached at a high level, i.e. the equivalence of two or three times of a person's monthly salary, they discovered a strong positive relationship between individual risk propensity and rewards. The finding confirmed that individual risk propensity is driven by rewards, although the amount of rewards needs to be at a relatively high level. While this finding is supported by Holt and Laury (2002), Post *et al.* (2008) found that even when the expected reward is very high, individuals still refer to their past experience in helping them decide whether or not to take the risk. This suggests that past experience would mediate the relationship between reward and individual risk propensity.

Overall, section 2.3.3 has examined the well-researched literature on individual risk taking and identified the factors that influence individual risk propensity (Table 2.6, p. 63). While the understanding of these individual-level factors could benefit the quest for factors that shape an organisation's risk appetite, without an appropriate theoretical basis these individual-level factors cannot be directly applied in the organisational context, since they are derived from research focused on human beings rather than organisations. The 'living organisations' thinking (de Geus, 1997; Maula,

2006; Wolfe, 2011), which views organisations as the same as human beings, provides a solid conceptual basis that enables the application of the findings from individual risk taking research to the organisational context. Informed by this notion, the ‘living composition’ model (Maula, 2006) offers a robust conceptual framework to integrate the literature review findings into a unified model to explain the factors that shape an organisation’s risk appetite. The following section therefore introduces the ‘living organisations’ thinking and the ‘living composition’ model, and explains how these two perspectives can serve as an appropriate theoretical framework for the study of risk appetite.

Table 2.6 Evidence from the individual risk taking literature on factors that influence individual risk propensity

Factors	Relationship with individual risk propensity	Source
Biopsychosocial factors		
Gender	*	Gilliam <i>et al.</i> , 2010; Neelakantan, 2010; Hariharan <i>et al.</i> , 2000; Wang <i>et al.</i> , 2009; Watson and McNaughton, 2007
Age	M	Faff <i>et al.</i> , 2009; Mata <i>et al.</i> , 2016; Pavic and Vojinic, 2012; Wang <i>et al.</i> , 2009
Framing	M	Kuhberger <i>et al.</i> , 1999; Roszkowski and Snelbecker, 1990; Seo <i>et al.</i> , 2010
Marital status	M	Ardehali <i>et al.</i> , 2005; Daly and Wilson, 2001; Grable and Lytton, 1998; Hallahan <i>et al.</i> , 2004; Watson and McNaughton, 2007
Education	+	Al-Ajmi, 2008; Gilliam <i>et al.</i> , 2010; Grable and Joo, 2004; Pavic and Vojinic, 2012
Environmental factors		
Child presence	M	Chaulk <i>et al.</i> , 2003; Faff <i>et al.</i> , 2008; Pavic and Vojinic, 2012; Wang <i>et al.</i> , 2009
Knowledge	+	Grable, 2000; Masters, 1989; Watson and McNaughton, 2007
Rewards	+	Holt and Laury, 2002; Kachelmeier and Shehata, 1992; Post <i>et al.</i> , 2008

Note: ‘*’: Men have higher risk propensity than women.

‘+’ indicates the factor is positively related with individual risk propensity.

‘M’ indicates both positive and negative relationships are likely.

2.3 The ‘Living organisations’ thinking and the ‘Living composition’ model

2.3.1 The ‘living organisations’ thinking

In the field of business management, organisations are traditionally viewed as ‘machines’, which is strongly influenced by the Newtonian model of the world (Tesson, 2006). However, this conventional ‘machine’ view has been ineffective in explaining the dynamic behaviour of modern organisations, observed in the contemporary business environment (Draman, 2004). In the last two decades, there has been a noticeable shift in the view of organisations from the ‘machine’ model to a new form that reflects the characteristics of living entities (Harder *et al.*, 2004; Petzinger, 1999). In particular, there is ample evidence that organisations are increasingly seen as the same as human beings, which interact, adapt, and co-evolve with the environment (de Geus, 1997; Maula, 2006). For example, Vancouver (1996) argued that organisations and human beings are similar in the sense that they both set goals and develop processes to accomplish those goals. Wheatley and Kellner-Rogers (1995) posited that organisations feature the essential properties of human beings: creative, adaptive, self-organising, and learning. de Geus (1997) and Tracy (1994) considered organisations as possessing their own identities and unique personalities. Maula (2000) discovered that organisations are capable of ‘sensing’ the changes from the environment, ‘creating’ and ‘memorising’ new knowledge, and ‘recalling’ the stored knowledge when needed (von Krogh and Vicari, 1993). Wolfe (2011) argued that a human being is a perfect analogy for the more complex organisational body.

This abovementioned perspective of viewing organisations as living entities (e.g. human beings) is known as the ‘living organisations’ thinking. Stemmed from the living systems theory (Harder *et al.*, 2004; Miller, 1978; Swanson, 2006) and the autopoiesis theory (Maturana and Varela, 1980;

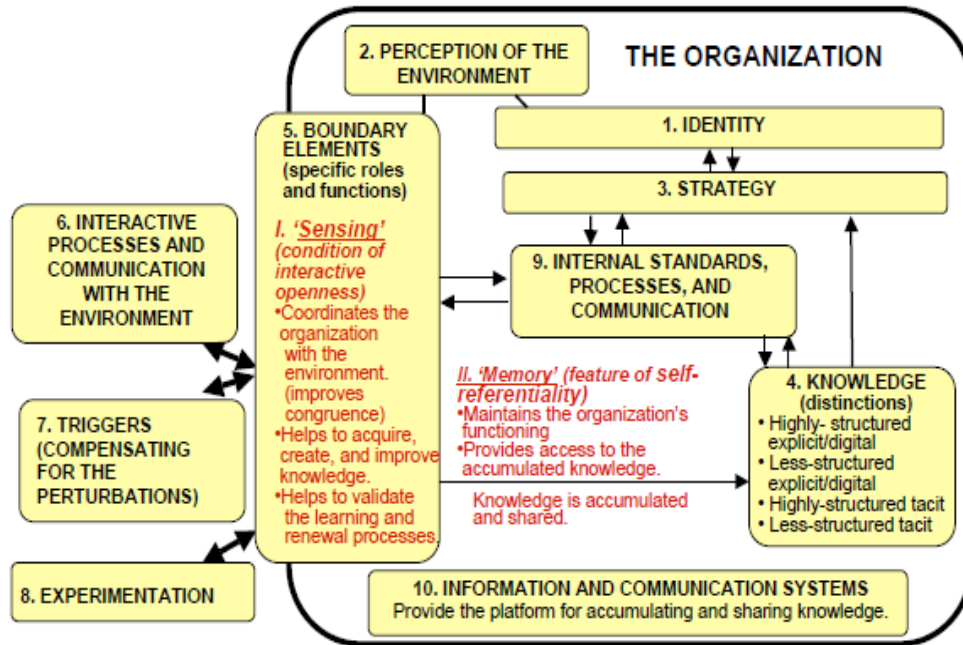
1987), where human beings and organisations are considered as self-producing living systems with different levels of complexity (Ashmos and Huber, 1987; Miller and Miller, 1990), the ‘living organisations’ thinking provides a solid conceptual basis for the study of organisational behaviour to benefit from studies on human behaviour (Hall, 2005). This is because in the context of living systems, the characteristics of human beings are also evident in other living systems, including organisations (Miller and Miller, 1990). This cross-level inference suggests that organisational researchers can draw on the work of physiologists and psychologists who study other living systems (Suan, 1994; Tracy and Swanson, 1993). Therefore, the ‘living organisations’ thinking enables the study of risk appetite to draw upon the literature on individual risk taking.

2.3.2 The ‘living composition’ model

Informed by the ‘living organisations’ thinking, Maula (2006) developed and tested a model to describe the key components and processes of a living organisation, namely the ‘living composition’ model (Figure 2.3, p. 66). A key feature of the model is that an organisation has an enabling infrastructure of ten strategic components that are continually reproduced by the organisation itself. These ten components include ‘identity’, ‘perception of the environment’, ‘strategy’, ‘knowledge’, ‘internal standards, processes and communication’, ‘information and communication systems’, ‘boundary elements’, ‘interactive processes and communications with the environment’, ‘triggers’ and ‘experimentation’. Table 2.7 (p. 68) offers an explanation of each component. The ‘living composition’ model also highlights several cognitive processes within an organisation that are vital for its survival and growth in the changing environment, including sensing, interpreting, responding, reflecting and learning. Maula (2006) believes that the continuous updating of the ten strategic components, combined with their interrelationships and the cognitive abilities of sensing and memory, determine how an organisation would behave in the changing environment, including taking risks. As risk appetite is conceptualised in this research as an intention of an organisation to take risk (p. 6), the ‘living composition’

model provides a robust conceptual framework that can be used to explore the factors that shape this behavioural intention.

Figure 2.3 The ‘living composition’ model



(Source: Maula, 2006: 80)

The key reasons that underlie the adoption of the ‘living composition’ model as a conceptual framework for this research are:

- The ‘living composition’ model provides a solid conceptual basis that allows the study of organisations to benefit from studies on individuals. Therefore, the model enables this research to draw upon individual risk taking literature to study the organisational construct of risk appetite.
- The ‘living composition’ model is not solely focused on the internal context of an organisation; the external environment to which organisation is exposed is also considered, as demonstrated in the inclusion of three external components (interactive process and communication with the environment, triggers, and experimentation). This indicates that the model allows for an

inclusive understanding of how a particular organisational behavioural intention, e.g. risk appetite, is shaped by a complex interplay between inherent organisational characteristics and internal processes and the external environmental forces.

- The ten strategic components of the ‘living composition’ model provide a more sophisticated structure to further classify the factors identified from the practitioner and academic literature into an interconnected whole, thus leading to the development of a conceptual framework of factors that shape an organisation’s risk appetite (Figure 2.4, p. 74). The strategic components of the model correspond well to the classification of the literature, where identified factors are typically grouped under organisational, decision-maker and environmental categories. As shown in Figure 2.3 (p. 66), components 1, 2, 3, 4, 9 and 10 are internal to an organisation and can be seen as the ‘organisational’ category; component 5 can be considered as the ‘decision-maker’ category as it refers to specific roles that can effectively link the organisation with the environment; components 6, 7 and 8 are external to the organisation and can be seen as the ‘environmental’ category.

Table 2.7 Ten strategic components of a living organisation

Component	Explanation
Identity	Identity refers to the organisation's history, mission, the way the organisation defines itself, and other essential characterising features, such as organisational image and culture. Identity helps to maintain an organisation's integrity and distinguishes the organisation from others.
Perception of the environment	This refers to the organisation's subjective perception of its external environment, based upon its own internal rules. The perception can be reflected in the organisation's strategies.
Strategy	Strategy refers to a plan that integrates an organisation's goals, policies, and actions into a cohesive whole. Strategy is based on identity, perception of the environment, and other relevant aspects.
Knowledge	Knowledge facilitates and regulates the self-producing process of the organisation and enables adequate behaviour in a given context (Maula, 2006; Maturana and Varela, 1987).
Internal standards, processes, and communication	This includes various elements that influence the organisation's motivation and capability to learn, such as production processes, career structure, task definitions, internal communications, and education.
Information and communication systems	This includes a variety of more or less structured information systems. The systems have a central role in enabling the integrated sensing and memory of an organisation.
Boundary elements	Boundary elements include various embedded roles and functions that enable the interaction between an organisation and its environment. Boundary elements enable the organisation's sensing ability by identifying triggers, by interaction, and by experimentation.
Interactive Processes and Communication	Interactive processes include the methods used to communicate and co-evolve with the environment. They also include social coupling that refers to communication with individuals from outside the organisation.
Triggers	Triggers are perturbations that may lead to compensations in an organisation's structure. Triggers do not necessarily come from the external environment; there may be internal triggers.
Experimentation	Experimentation helps an organisation to create new knowledge and learn about its environment through trial and failure.

(Adopted from Maula, 2006)

2.4 Towards a conceptual framework of factors that shape an organisation's risk appetite

2.4.1 Identifying the parallels between individual factors and organisational factors

Prior to developing the conceptual framework, it is vital to 'translate' the factors identified through the literature on individual risk taking into their organisational equivalents. This section identifies these organisational equivalents.

'Gender' to 'Level of masculinity'

While gender plays a key role in shaping individual risk propensity (Gilliam *et al.*, 2010; Hariharan *et al.*, 2000; Neelakantan, 2010; Wang *et al.*, 2009; Watson and McNaughton, 2007), it seems inappropriate to gauge and describe an organisation as either 'male' or 'female'. Nevertheless, it may be more sensible to describe an organisation as being more masculine or feminine, based on particular characteristics of its organisational culture. According to Alvesson (2002), a 'masculine organisation' is more likely to emphasise upon certain values and principles such as self-assertion, separation, independence, control, competition, focused perception, rationality and analysis, whereas a 'feminine organisation' tends to embrace interdependence, cooperation, receptivity, acceptance, emotional tone, intuition and synthesising. Since individual risk taking research suggests that women are more risk-averse than men, it could be conjectured that an organisation's level of masculinity is positively related to its risk appetite. This positive relationship is explored in this research.

'Age' to 'Organisation's age'

Individual risk taking research suggests that the age of a person is likely to be associated with his/her risk propensity (Faff *et al.*, 2009; Mata *et al.*,

2016; Pavic and Vojinic, 2012; Wang *et al.*, 2009). Applying this factor into the organisational context, the organisational equivalent would be the organisation's age. There is some evidence in the organisational risk taking literature that the age of an organisation is related to its risk appetite (Bhatta, 2003). As the individual risk taking literature presents a mixed result with regard to the 'direction' of the relationship between age and risk propensity, one can suspect that the organisation's age has a mixed relationship with the risk appetite, which is investigated in this research.

'Framing' to 'Perceived level of risk in the environment'

Individual risk taking research has demonstrated that the way individuals frame the external situation influences risk propensity (Kuhberger *et al.*, 1999; Roszkowski and Snelbecker, 1990; Seo *et al.*, 2010). In particular, a positive framing of the external situation, i.e. a low level of perceived risk, reduces individual risk propensity; whereas a negative framing of the external situation, i.e. a high level of perceived risk, increases risk propensity (Tversky and Khanemann, 1981). The component of 'perception of environment' in the living composition model might be the organisational equivalent to framing. It could be argued that the way an organisation perceives the environment also influences its risk appetite. One can suspect that a positive perception, i.e. a low level of perceived risk in the environment, reduces the risk appetite, and a negative perception, i.e. a high level of perceived risk in the environment, increases the risk appetite. This proposed relationship is further explored in this research.

'Marital status' to 'Alliances or partnerships'

Individual risk taking research has highlighted that an individual's marital status is associated with his/her risk propensity (Daly and Wilson, 2001; Grable and Lytton, 1998; Hallahan *et al.*, 2004; Watson and McNaughton, 2007). Placed in the organisational context, the marital status of an individual could refer to whether the organisation has formed alliances or partnerships with other organisations. While a 'married' organisation can

benefit from additional sources of capital, knowledge and skills from its 'partner', it also needs to contribute these resources to its partner. As such, in line with the proposition of the individual risk taking literature, it could be argued that the alliances or partnerships of an organisation have a mixed relationship with the risk appetite, which is explored in the research.

'Education' to 'Ability to sense'

Individual risk taking research has showed that education is a highly important factor of individual risk propensity (Al-Ajmi, 2008; Gilliam *et al.*, 2010; Grable and Joo, 2004; Pavic and Vojinic, 2012). Different levels of education equip a person with varying abilities to seek and filter information from the external environment, which is then used to make risk decisions. While it appears difficult to identify an organisational equivalent for education, the living composition model (Maula, 2006) indicates that an organisation's 'education' might be coincided with its 'sensing' ability. In other words, education can be understood as an organisation's ability to sense relevant and useful information from the environment. In line with the argument from the individual risk taking literature, it can be argued that an organisation's ability to sense is positively related with the risk appetite. This positive relationship is examined in the research.

'Child presence' to 'Number of subsidiaries'

Child presence, as an environmental factor, has been highlighted as a factor that influences individual risk propensity (Chaulk *et al.*, 2003; Faff *et al.*, 2008; Pavic and Vojinic, 2012; Wang *et al.*, 2009). In the organisational context, child presence might refer to the presence of subsidiaries. It could be argued that the establishment of subsidiaries might reduce the organisation's risk appetite, because the organisation would need to invest considerable resources into the operation of the subsidiaries, thus undermining the capacity and capability of the parent organisation to take risks. However, it is also possible to conjecture that organisations with subsidiaries need to take more risks because they need the potential rewards

to satisfy their ‘dependents’. As such, it can be conjectured that the number of subsidiaries would have a mixed relationship with the risk appetite. However, it might be more appropriate to view the ‘number of subsidiaries’ as an organisational factor, because it reflects the composition of an organisation. The effect of ‘number of subsidiaries’ on risk appetite is further explored in this research.

‘Knowledge’ to ‘Organisation’s knowledge of self and environment’

Knowledge has been found as a key factor that increases an individual’s risk propensity (Grable, 2000; Masters, 1989; Watson and McNaughton, 2007). Not only does a knowledgeable individual have a good level of self-awareness, he or she also has a good level of understanding of the environment. Equally, a knowledgeable organisation should have a good level of knowledge about itself and the environment to make intelligent risk taking decisions. Consistent with the argument of the individual risk taking literature, it could be argued that an organisation’s knowledge of self and environment is positively related to the risk appetite. Nevertheless, rather than viewing knowledge as an environmental factor as suggested by individual risk taking research, this study considers the knowledge of self and environment as embedded within an organisation and therefore as an organisational factor to be further explored.

‘Rewards’ to ‘Expected rewards’

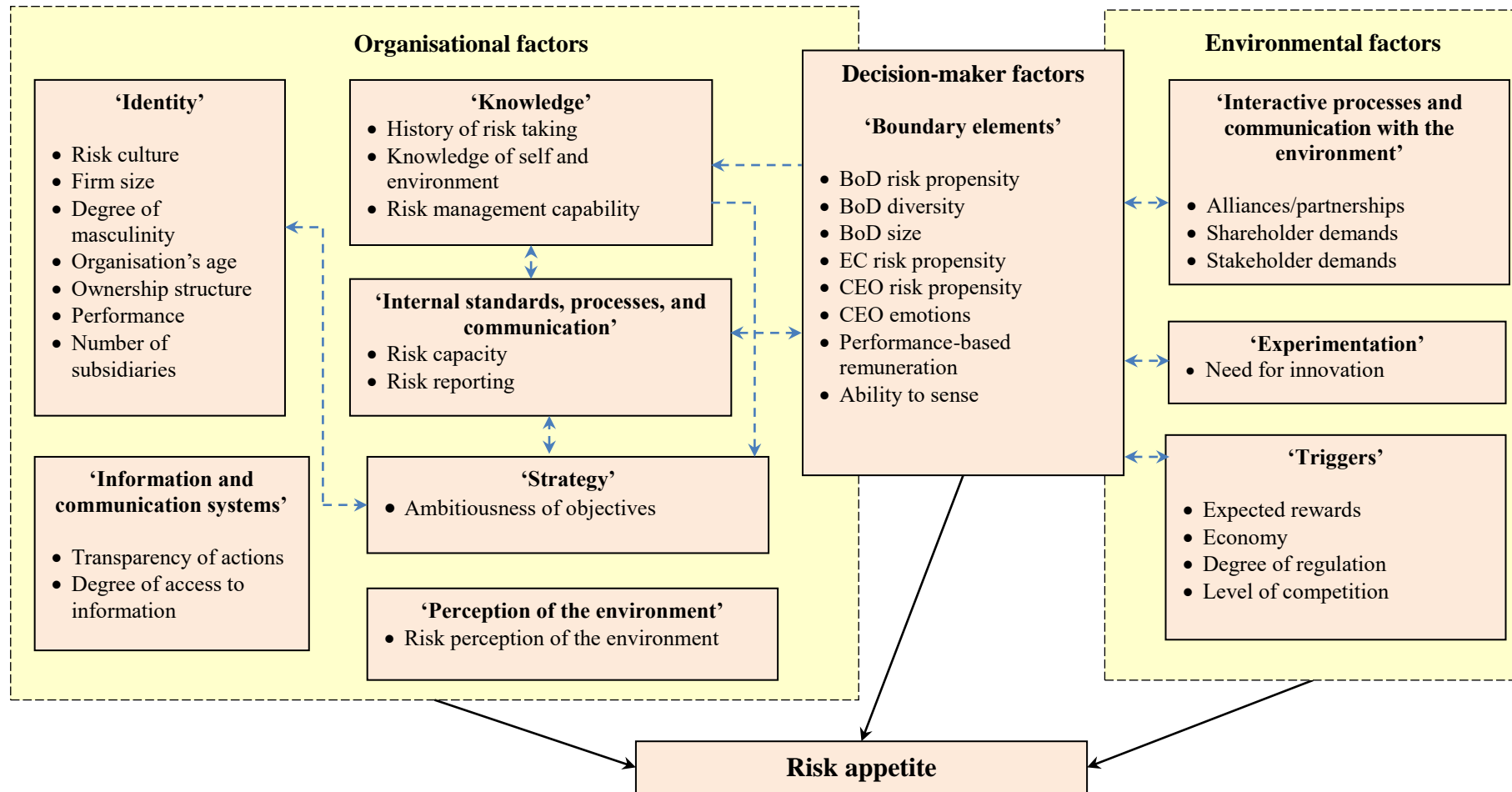
Last but not least, individual risk taking research has highlighted that the level of expected (monetary) rewards associated with taking a particular risk is positively related with individual risk propensity (Holt and Laury, 2002; Kachelmeier and Shehata, 1992; Post *et al.*, 2008). This positive relationship is envisaged to be consistent in the organisational context, where an organisation could be more willing to take risks if expected rewards are more promising. This positive relationship is further explored in the research.

2.4.2 The conceptual framework

The review of three distinctive types of literature, i.e. the practitioner risk appetite literature, the organisational risk taking literature, and the individual risk taking literature, has identified a wide range of factors that could shape an organisation's risk appetite. In particular, some factors exhibit a positive relationship with the risk appetite; some exhibit a negative relationship; others pose a mixed relationship. Whilst the literature classifies the factors into three different categories, i.e. organisational, decision-maker, and environmental, the ten strategic components and their interrelationships depicted in Maula's (2006) living composition model offers a more sophisticated yet structured framework into the factors that shape an organisation's risk appetite. Integrating the literature review with the living composition model, a conceptual framework (Figure 2.4, p. 74) is developed to guide the primary research phase of this study. The thought-process for mapping individual factors onto specific components of the living composition model is based on the explanations of the ten strategic components (Table 2.7, p. 68).

The conceptual framework suggests three areas for further exploration. Firstly, while the literature identifies a wide range of factors, the understanding of how and why a particular factor shapes the risk appetite remains largely insufficient. Secondly, the conceptual framework provides the opportunity to explore the relative importance of identified factors to risk appetite, so that an understanding of the most important factors that shape an organisation's risk appetite could be established. Finally, since the 'living composition' model consists of ten interrelated components, the conceptual framework also offers an opportunity to explore the interrelationships among the factors that shape an organisation's risk appetite. An understanding of the interrelationships between different factors could enhance the analysis with regard to how an organisation's risk appetite could change based on the changes in the organisation's internal and external environments.

Figure 2.4 A conceptual framework of the factors that shape an organisation's risk appetite



Note: Dashed arrows represent the proposed relationships between individual components, as suggested by Maula (2006).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research methodology of this study. The design of this research followed Saunders *et al.*'s (2012) 'research onion' framework, including research philosophy, research approach, research strategy, sampling, data collection and analysis. A reflective account of the research process is also provided.

3.1 Purpose of the study

The first step to designing a research study is to understand and clarify the purpose of that study (Sekaran and Bougie, 2013). Typically, a research study serves three different purposes: 1) to explore a new area of research; 2) to describe the characteristics of a phenomenon; or 3) to examine and explain whether or not a conjectured relationship holds true in a given context (Lee and Lings, 2008). Because these three purposes reflect an incremental pattern of knowledge development within a field, i.e. from unknown to knowing substantially, it has been argued that the choice of a study's purpose is primarily dependent upon the level of existing knowledge in the topic area, as well as the nature of the research questions (Sekaran and Bougie, 2013).

The aim of this study is to identify and evaluate the factors that shape an organisation's risk appetite in the context of international hotel industry. Since risk appetite is an under-researched topic in the management domain (Aven, 2013; Gontarek, 2016; Hillson and Murray-Webster, 2012), an explanatory study was not plausible, because it requires a considerable amount of existing research on the topic (Sekaran and Bougie, 2013). It seemed that an exploratory study that aims to explore, rather than to

describe or explain, the topic in more depth was the most appropriate. Also, given that the two main research questions of this study, i.e. ‘what factors influence an organisation’s risk appetite?’, and ‘how do these factors influence the risk appetite?’, are largely exploratory in nature, it seemed logical to follow through with an exploratory research purpose.

3.2 Research philosophy

The world in its physical and social manifestations may appear very differently in the eyes of different observers, including researchers. The differences in perspective reflect a variety of underpinning beliefs held by different individuals about the world and the nature of knowledge. The perspective that a researcher takes is known as a philosophical position (Saunders *et al.*, 2012) and it is important to clarify this because it underpins the researcher’s choice of methodology and data collection methods (Bryman, 2008; Creswell *et al.*, 2011). An explicit discussion of philosophical position enables a researcher to formulate appropriate research designs, to determine the types of evidence needed, and to select the best means of collecting and interpreting data (Easterby-Smith *et al.*, 2002). It also helps the researcher to identify limitations to the research and develop innovative designs that are appropriate for the study but beyond the current experience or resources of the researcher (Sekaran and Bougie, 2013).

Within the field of business and management research, three research philosophies appear predominant: positivism, interpretivism and pragmatism. Generally, positivism asserts that reality exists objectively and independently from human consciousness, and that knowledge is derived by observation of the world as external to human beings (Creswell and Clark, 2011). In order to be valid, positivistic research must be value-free and remain uninfluenced by the researcher’s own beliefs (Saunders *et al.*, 2012). This philosophy embraces the methods of natural world inquiry and favours a deductive, hypothesis-testing approach to research, with the aim of

demonstrating causal relationships between constructs under study (Altinay *et al.*, 2015; Johnson and Duberley, 2000).

Interpretivism represents a belief that reality and knowledge are constructed from people's subjective perceptions and interpretations of the world. With an emphasis on human experiences, interpretivist research tends to be seen as biased and thus unable to claim to be value-free (Creswell and Clark, 2011; Lee and Lings, 2008). Compared with positivism, interpretivism advocates an inductive, theory-building approach to research, with the aim of understanding deep meanings rather than demonstrating causality (Saunders *et al.*, 2012).

Pragmatism appreciates the value and strengths of both positivism and interpretivism, and attempts to incorporate their principles in order to answer the research question in a way that is most appropriate to achieve the research aim (Saunders *et al.*, 2012). Pragmatism focuses on practicality and tends to utilise all possible approaches that might work in the research process. As such, studies informed by pragmatism often utilise a mixed-methods approach that employs both qualitative and quantitative methods (Creswell, 2009).

The literature on methodology suggests that there are no right or wrong choices in research philosophy and each has its own merits and limitations (Sekaran and Bougie, 2013; Creswell and Clark, 2011). Nevertheless, it may be that one philosophy appears more appropriate than others for a particular study, based on several factors, including the extent of existing knowledge in the research area, the nature of the research question and the researcher's skills (Altinay *et al.*, 2015). Taking these factors into consideration, this study adopted the interpretivism. The justification is presented below:

- Concerning the extent of existing knowledge in the research area, risk appetite is an under-researched topic with little existing research. In order to achieve the research aim, the researcher needs to explore practitioners' experience of risk appetite. Compared with

positivism and pragmatism, interpretivism is more suitable for exploratory studies and building theory in under-researched areas. As such, it was deemed the most appropriate choice.

- With regard to the nature of the research questions, the main research questions proposed for this study are ‘What factors influence an organisation’s risk appetite?’, ‘How do these factors influence an organisation’s risk appetite?’ and ‘What are the most important factors?’. These three questions, essentially exploratory in nature, call for a qualitative approach inherent in interpretivism. However, it is worthwhile to note the argument of Creswell (2008), who believed that ‘what’ and ‘how’ questions could also be answered via a positivism-informed quantitative approach. This leads to the next point of consideration, the skills of the researcher.
- Considering the skills of the researcher, the researcher was more competent and experienced in conducting qualitative research, based on previous experiences of designing and conducting interviews and observations, and analysing qualitative data. As such, it seemed more sensible to adopt the interpretivism and follow a qualitative approach rather than a positivist or pragmatic approach, either of which is likely to require a large-scale quantitative element in the research.

3.3 Research approach

The choice of a particular research philosophy usually leads the researcher to employ a certain research approach and strategy (Bryman, 2008; Easterby-Smith *et al.*, 2002; Saunders *et al.*, 2012): positivism is often associated with the deductive approach and quantitative research strategy; interpretivism is associated with the inductive approach and qualitative strategy; pragmatism normally corresponds with the abductive approach and mixed-methods strategy. However, such a link is not always the case, for

example the seminal study of Hofstede (1984) on cultural differences utilised a large-scale quantitative approach, but Hofstede described his philosophy as non-positivism.

This study adopted an inductive research approach, which is in line with the conventions of interpretivism. There are several reasons to justify this choice. The inductive approach has been argued as the most suitable approach for studying a new phenomenon, around which little or no previous research has been undertaken (Marshall and Rossman, 1999). As discussed earlier, risk appetite was a new area of research with little existing knowledge. Also, because this study aims to identify and understand the factors that influence an organisation's risk appetite, an inductive approach would enable the researcher to qualitatively explore the effects of the factors on risk appetite. Findings would emerge through an exploration of the subjective meanings, interpretations and experiences of the correspondents, in this case corporate executives and risk managers, who collectively determine the risk appetite of their companies. A deductive approach would be inappropriate to achieve the intended research aim, due to the lack of prior theoretical developments on the topic.

It is worthwhile to mention that the abductive approach (Saunders *et al.*, 2012) seemed at first sight a viable alternative to induction, because it integrates the advantages of both inductive and deductive approaches and seems more likely to generate a comprehensive answer to the research questions. However, as discussed in the considerations of research philosophy, such a combination did not appear advisable in the light of the constraints of the researcher's skills. Also, pursuing an abductive approach might fail to generate the depth of knowledge that might be attained either by a purely inductive or deductive approach. Therefore, the inductive approach remained the choice for this study.

3.4 Research strategy

The importance of determining a suitable research strategy to the overall research quality has been well documented in the literature. As suggested by Saunders *et al.* (2012), a research strategy is a specific plan for answering the research questions, which links the study's philosophical position with its choice of data collection and analysis techniques. Informed by the exploratory purpose of this study, the philosophy of interpretivism and the inductive research approach, the Case Study research strategy was adopted for this study (Eisenhardt, 1989; Yin, 2003). The key reasons for selecting the Case Study strategy were: 1) It is a widely adopted research strategy particularly in the field of management and organisation studies (Bryman, 2008; Gummesson, 2014); 2) It fits well with exploratory studies on new and under-researched phenomenon and is appropriate to answer 'what' and 'how' questions (Phillips and Pugh, 1994; Yin, 2003). 3) As there is limited existing knowledge on risk appetite, a Case Study strategy would help to generate rich insights into the concept of risk appetite and the effects of various internal and external factors, and open opportunities for further exploration on this topic.

It is useful to mention that the Grounded Theory strategy was initially identified as a potential research strategy for this study, as it is capable of developing new knowledge in areas with no or limited theory (Strauss and Corbin, 1990). However, this strategy was ruled out after further consideration, because a grounded theory researcher needs to enter and exit the field on a regular basis and constantly refine and revise the research questions (Altinay *et al.*, 2015; Lee and Lings, 2008). It was envisaged that this repeated 'entry to' and 'exit from' the field would pose significant challenges for the researcher, considering the difficulty in ensuring prolonged access to participants. Also, it was understood that the Grounded Theory strategy advocates the method of observation during the data collection process (Strauss and Corbin, 1990). This would suggest the necessity of the researcher observing in corporate-level meetings where

discussions on risk appetite happen. However, access to such high level meetings was deemed unlikely due to the confidential nature of the information discussed. This thought was later confirmed during the fieldwork when the gatekeepers of the participating organisations rejected the possibility of observing corporate meetings.

Following the choice of the Case Study strategy, an essential consideration was to determine whether the research needs to select a single case or multiple cases, as the decision could have a significant impact on the quality of research findings (Saunders *et al.*, 2012). Yin (2003) argues that a single-case design is normally employed when the case itself represents an extreme or unique example, or the case provides the researcher with an opportunity to observe and analyse a phenomenon that few have considered before. The rationale for selecting a multiple-case design, on the other hand, is largely dependent upon whether findings are replicable across different cases. Some argue that multiple-case research is more robust, because the findings are regarded as more reliable and generalisable (Pettigrew *et al.*, 1992; Wisker, 2001). However, Gummesson (2014) cautions that when it comes to an under-researched phenomenon, multiple cases may yield contradictory results, which would in turn undermine the generalisability of the findings. Eisenhardt (1991) suggests that the decision regarding single or multiple cases needs to be based on how much knowledge is already known and how much new information is likely to be generated from incremental cases.

For this study, the topic of risk appetite has been studied inadequately in academia, with a number of calls for exploration of the phenomenon in more depth (Aven, 2013; Bromiley *et al.*, 2015; Lam, 2014). Therefore, demonstrating a high level of reliability and generalisability in the findings was not an intention of this study. Also, since the concept of risk appetite was equally ‘fresh’ to organisations in the international hotel industry, and due to the fact that most hotel companies exhibit similar corporate structures and business models, it seemed that not much new information could be learnt from incremental cases. In this sense, it was felt that a single case would be appropriate. However, it was difficult to select a single

organisation whose risk appetite could be considered as an extreme or unique example. This was because, 1) it was not clear what constitutes an ‘extreme’ risk appetite from existing literature and; 2) in an organisation, the risk appetite is not static but always changing, possibly being ‘extreme’ at one time but not at all at other times (Georgousopoulou et al., 2014; Gontarek, 2016). Further, it was thought that a single case might be too narrow to capture and illustrate in any depth the dynamic relationships between the risk appetite and various internal and external factors. For these reasons, a two-case design was chosen for the study.

Two international hotel companies, with whom the researcher’s supervisor has developed good professional relationships, were recruited as the case organisations. Initial access to these organisations was secured with the help of a ‘gatekeeper’, who in each organisation was a corporate-level executive responsible for articulating the organisation’s risk appetite. From this point in the thesis, these two case organisations are referred to as ‘organisation A’ and ‘organisation B’. A brief background to both organisations is provided as follows:

- Organisation A is a publicly listed company that owns, manages and franchises hotels and resorts. The company is one of world’s largest hotel brands owner and operator, comprising over several thousand hotels globally. It has a diverse portfolio of hotel brands designed to satisfy the dynamic needs of customers. Despite a decline in 2008-09 due to the global economic crisis, the company’s overall performance had been steadily improving between 2010-14, thanks to its commitment to an ‘asset-light’ business model, which represents a means of business growth through franchising or management contract, rather than leasing or owning.
- Organisation B is also a publicly listed company competing in the international hotel industry. Considered as one of the fastest growing company, its multi-branded portfolio comprises approximately one

thousand hotels and resorts worldwide. Similarly to organisation A, organisation B also commits to an ‘asset-light’ business model, which helped drive growth through difficult times following the global financial crisis.

3.4.1 Document analysis of case organisations’ risk appetite

As this study aims to explore the factors that shape an organisation’s risk appetite, it was deemed essential to gain an initial understanding of the case organisations’ risk appetites. This was achieved through a content analysis of various documents (Bowen, 2009), which included company annual reports (2009-2014), independent market analyst reports (2014-2015) specifically focused on the case organisations, and several earnings call transcripts from the case organisations. These three types of documents were thought to complement each other and together would allow a preliminary assessment of the case organisations’ risk appetite. All analysed reports were obtained online from the case organisations’ official websites and from the Thomson One Banker database (for which the researcher’s University pays an annual subscription fee).

After reading and re-reading collected documents and highlighting texts that could evidence an organisation’s willingness towards risk taking, two broad themes, namely ‘growth strategy’ and ‘risk management’, were identified as key aspects reflecting the risk appetite. ‘Growth strategy’ outlines an organisation’s plan for further growth, which can be analysed through embedded aspects such as ‘target market’ and ‘brand development’. ‘Risk management’ concerns the approach with which the organisation defines, assesses and responds to its risks.

Regarding the target markets, while organisation A concentrated on the most developed and emerging countries (e.g. US, UK, Germany and China), organisation B mainly focused on emerging countries in Europe (e.g. Russia), Middle East (e.g. Turkey and Saudi-Arabia) and Africa (e.g. Nigeria and South Africa). Compared with organisation A, organisation B’s

target markets appeared relatively immature and present considerably more political, economic, social-cultural and environmental risks. Even the Board of organisation B had acknowledged on various occasions that their geographic target markets present greater risks. It was also notable that organisation A's target markets were subject to intense competition by many other international hotel companies, whereas organisation B's target markets were relatively unexploited. This implied that other major hotel companies might also consider the target markets of organisation B as risky and unfavourable. Therefore, the analysis suggested that organisation A possessed a relatively lower risk appetite than organisation B.

With regard to brand development, whilst organisation A re-energised and enlarged its brand family with several brand additions, organisation B underwent a major brand portfolio restructuring over the observed six-year period, including several brand additions and removals. This difference of pace and approach in brand development also suggested that organisation A had a lower appetite for the risk associated with brand development than organisation B.

In addition to the theme of 'growth strategy', an organisation's risk appetite may also be reflected by examining its approach to risk management, i.e. how the organisation defines, assesses and responds to its risks. It was noted that both case organisations disclose information on 'risk management' in their annual report, where the key risks affecting the organisation and how they are managed are explained.

In organisation A, the term 'risk' was defined as issues or events that may undermine the achievement of organisation's objectives. This definition seems to have a negative connotation, assuming that a risk is something inauspicious for an organisation. Moreover, organisation A's risk management effort was led by a structured framework that allows itself to proactively identify both short and long term risks emerging from the organisation's internal and external environment. Identified risks were evaluated and prioritised against the organisation's strategic objectives.

Specific risk treatment strategies and control measures were developed and implemented to mitigate the major risks, and other less significant risks were regularly monitored and reviewed. This vigilant approach to risk management and the ‘hostile’ view of risk could imply a risk-averse tendency of the organisation.

With regard to organisation B, whilst the term ‘risk’ was not defined in its annual report, its meaning appeared very similar with organisation A. However, its reporting of ‘risk management’ approach seems less comprehensive than organisation A. It reported the risks in two broad categories – financial and operational, and those risks appear to be focused on short-term (normally one year) issues only. Although the company acknowledged that a risk management procedure is in place, it reported in little detail as to how the key risks are identified, assessed and prioritised. The risk treatment strategies also seem generic. This more ‘relaxed’ reporting of risk management approach might indicate that organisation B is more tolerant of the possible external speculation that the company is less adept at risk management.

Overall, the analysis showed that the case organisations exhibited somewhat different behaviour towards risk taking over the observed period (2009-2014). Organisation A seemed more risk-averse and conservative, while organisation B appeared relatively more aggressive and ‘hungry’ for risk taking. It was considered that these two organisations would make an appropriate case for identifying similarities and differences in the factors that shape an organisation’s risk appetite.

3.5 Sampling

While sampling as a key methodological issue seems to have been given more attention in quantitative research, many scholars (e.g. Altinay *et al.*, 2015; Lee and Lings, 2008; Sekaran and Bougie, 2013) have argued that sampling for qualitative studies is equally important, as the appropriateness

of the selected sample will have a significant impact on the quality of the data and the entire research.

Because of the qualitative and exploratory nature of this study, probability sampling, a technique mostly utilised in quantitative research (Altinay *et al.*, 2015), was deemed inappropriate to employ. Instead, the samples of this study were selected through the technique of purposive sampling (Saunders *et al.*, 2012), where the participants were handpicked on the basis that their expertise and experience fit to the topic under study (Lee and Lings, 2008).

In order to provide a rich and in-depth answer to the research questions, three different sample groups were selected for this study:

- The first group consisted of respondents who were globally recognised experts on risk appetite. They were highly experienced risk management consultants with particular expertise in risk appetite. The decision for recruiting these experts as one sample group was primarily due to the exploratory nature of the study. As academic research on risk appetite appeared scarce, the experts could provide valuable insights on factors that could shape an organisation's risk appetite, thus enabling the researcher to validate and refine the preliminary conceptual framework developed from the literature review. The particular selection criteria of these subjects were that one must have published materials on the topic of risk appetite, e.g. thought papers, working papers and/or consultancy reports which are accessible either online or in print form, and that one must have been globally regarded as leading experts in risk appetite and have been frequent speakers in risk management related conferences, seminars or workshops.
- The second group included respondents who were financial analysts with intimate knowledge of the case organisations. These independent analysts have a deep and thorough understanding of the

case organisations, as they monitor and investigate the case organisations on a daily basis and also advise existing and potential investors interested in those organisations. The companies for which these analysts worked are well-known global consulting companies and investment banks. The main reason for recruiting the analysts was that they could provide an independent viewpoint on the general risk appetite of the two case organisations, therefore offering solid evidence for (or to perhaps disprove) the different risk behaviours, i.e. one being risk-averse and conservative, and the other being risk-seeking and aggressive, as observed in the document analysis of the case organisations.

- Subjects in the third group included corporate-level executives and risk managers of the two case organisations. The main purpose of recruiting this group of respondents was to test and further explore the revised framework in real world settings. Corporate-level executives and risk managers were the only people within an organisation who would have the required level of knowledge and experience to discuss their organisation's risk appetite. The particular selection criteria were that potential participants must have responsibility in managing risk at operational or corporate level, and/or they must have been involved in discussions on their company's risk appetite. Since risk appetite is a high level concept within an organisation, and is mostly discussed in the boardroom among Board members, corporate executives and risk managers, management from other departments and operational level employees were thought to be unlikely to possess sufficient knowledge to be able to engage in discussions on risk appetite. Therefore, the population of this sample group was regarded as relatively small, but from whom it was possible to extract rich information to deeply understand the phenomenon of risk appetite.

3.6 Data collection

The data collection process encompassed two consecutive stages. The first stage included undertaking in-depth interviews with the first sample group, i.e. risk management consultants who are considered as risk appetite experts. The second stage included the case study, which involved collecting data from the second (i.e. financial analysts of case organisations) and third sample groups (i.e. corporate executives and risk managers). Details of data collection at each stage are presented below.

3.6.1 Stage one

3.6.1.1 Data collection method

Informed by the interpretivism philosophy and the exploratory nature of the study, unstructured in-depth interviewing was chosen to collect data from the risk appetite experts. It was believed that such a data collection method would extract richer and deeper information about risk appetite than semi-structured and structured interviews, meanwhile maintaining sufficient flexibility in terms of content and time of the interview (Lee and Lings, 2008). In order to understand, from the participants' perspective, the meaning of risk appetite and identify the most important factors that shape an organisation's risk appetite, only two main questions were prepared, which were 'how do you explain the concept of risk appetite?' and 'what factors do you think influence an organisation's risk appetite?'. All other questions were formulated in accordance with the response of the informants on these two questions (Hackley, 2003). While the researcher was furnished with a number of expected answers (e.g. risk appetite factors such as risk culture and risk capacity) as a result of the literature review, they did not in any way lead the interview; instead, the expected answers served as a 'mental checklist' for the researcher and were only probed further when the informant mentions them during the interview.

3.6.1.2 Gaining access to risk consultants

In order to identify suitable participants, a comprehensive research over the Internet was undertaken. The particular selection criteria (discussed in section 3.5 sampling) were applied to identify participants suitable for the study. As a result, seventeen eligible risk consultants, geographically dispersed across the UK, US, and Australia, were identified. Their contact details were collected from their company or personal websites and each one of them was sent a personalised invitation email (Appendix 3.1). Invitation email was deemed the most appropriate tool to approach those experts, because it was efficient and economical for the researcher, and offers a medium for gentle requests to be conveyed to potential participants (Gillham, 2005). Subsequently, ten experts (eight UK-based and two US-based) expressed an interest in participating in the research, five others declined the invitation for various reasons, and the remaining two seemed beyond contact, despite further follow-up emails and phone calls to their places of work.

Within twenty-four hours of receiving email confirmation from these ten people who were interested in participating, an official participant information sheet was sent to each one of them via email. The participant information (Appendix 3.2) sheet contained essential information about this research, including what they would be required to do, how they might benefit from participation and ethical considerations relating to the university's anonymity and data protection policies. The purpose of providing such a detailed information sheet was to ensure that potential participants were fully aware of the research study and what was expected from them, so that they would be in a good position to make an informed decision as to whether or not to take part. As highlighted by Gillham (2005), the quality of participant information sheets can have a significant impact on setting the tone for the future interview as well as establishing a degree of confidence and candour between the researcher and the participant.

Following the dispatch of participant information sheets, further emails and phone calls were exchanged to arrange a mutually convenient time and venue for the interview with each participant. Once the details were agreed, the researcher sent an email a few days prior to the interview to confirm arrangements with the participant. This move was particularly praised by one participant, who thought it was very professional and considerate to re-confirm the interview.

3.6.1.3 Collecting data from risk consultants

Ten interviews were conducted during January 2013 to April 2013. A summary of the participants' background, the location and length of the interview is provided in Table 3.1 (p. 90). The eight UK-based participants were interviewed face to face in places at their convenience. Overall six interviews took place in public cafés, while two interviews were conducted in the participants' place of work.

Table 3.1 List of risk consultant participants

Code	Gender	Location of interview	Length of interview
P01	Male	Petersfield, UK	61 minutes
P02	Male	US (via telephone)	65 minutes
P03	Female	London, UK	87 minutes
P04	Male	Portsmouth, UK	49 minutes
P05	Female	Birmingham, UK	77 minutes
P06	Male	London, UK	64 minutes
P07	Female	London, UK	64 minutes
P08	Male	London, UK	45 minutes
P09	Female	US (via telephone)	48 minutes
P10	Male	London, UK	50 minutes

The length of all UK-based interviews varied from forty-five minutes to nearly one hour and a half. Seven interviews were fully recorded with the consent of the participants. One interview could not be recorded as the participant was uncomfortable with the presence of a voice recorder. In that case, detailed notes were taken and a reflection of key issues was written immediately once the interview ended.

With regard to the two US-based participants, telephone interviewing was conducted. While it was similar to face to face interviewing in most aspects, the researcher could not see the facial expressions of the participants, which added some ambiguity when it comes to the interpretation of the data. Moreover, Gillham (2005) pointed out that telephone interviews are more vulnerable to technology problems than face to face interviews. This was proven in this study, as one interview, which was initially conducted via Skype video, was disrupted in the middle of the conversation by a sudden Internet disconnection. After it was resumed five minutes later, the momentum was lost, and the informant's train of thoughts was also disrupted, which might have impaired the quality of the answers. Despite this setback, the researcher tried the best to encourage the informant to talk as much as possible, and eventually both telephone interviews were completed to the researcher's satisfaction within the agreed timeframe.

Each interview started with a brief introduction of the research study to remind the participants of the topic and to clear any confusion they might have. This was deemed important and necessary, because if the participants did not fully understand the purpose of the research and what they were expected to do, the quality of their answers might be undermined. Also, the brief introduction was effective in terms of 'breaking the ice' between the researcher and the participant and helping establish a rapport (Altinay *et al.*, 2015).

Following the introduction two key questions of the interview were addressed. These were: 'How do you explain the concept of risk appetite?' and 'According to your knowledge and experience, what factors influence a company's risk appetite?' With an open mind and an understanding of the literature, the researcher identified interesting issues from the responses and further questioned them in more depth. Questions such as, 'Can you please elaborate a bit more on this point?', 'Why do you think this factor affects the company's risk appetite?', and 'In what way does this factor influence the risk appetite?' were regularly used as probes. All interviews were ended with a 'thank you' to the participant for their contribution, but the researcher

took every opportunity to extract as much information as possible before the participant left. For instance, questions such as, ‘Is there anything you want to add?’, and ‘Do you have any question, comment, or suggestion about my research?’ were asked in all interviews. This was deemed important because the methodology literature has often stressed the point that even during an interview-ending phase, more valuable information is often obtained (Gillham, 2005; Hennink *et al.*, 2011; Lee and Lings, 2008).

Immediately after the interview, the researcher spent a further thirty minutes to write an interview memo. The purpose was to note down any thoughts and observations regarding the interview while they are still fresh in the mind. Not only did this memo help the researcher evaluate and further improve the conduct of future interview, it also played a critical role in the subsequent interpretation of the data and helped identify any hidden meanings (Gillham, 2005).

3.6.2 Stage two

3.6.2.1 Data collection methods

Stage two of the fieldwork encompassed the case study, where primary data was collected from sample groups two and three. In order to find out more about the case organisations’ risk appetite and to validate the document analysis finding that the case organisations had rather contradictory risk appetites, it was decided to conduct a questionnaire survey with the financial analysts of the two case organisations (i.e. second sample group). This choice of data collection method was based on the consideration that questionnaires would be more time-efficient to achieve the intended purpose.

With regard to sample group three (i.e. corporate-level executives and risk managers), a combination of questionnaires and semi-structured in-depth interviews were employed to gather data. Due to the limited time participants could contribute to the study, it was decided to use questionnaires at first to validate the ‘stage one’ framework (Figure 4.2, p.

132) in terms of the nature and the relative importance of the risk appetite factors, and then use follow-up interviews to explore in more depth the concept of risk appetite and the most important/influential factors (as highlighted from the questionnaire). The plan was that the participants would answer the questionnaire first, which would be collected prior to the interview. It was believed that this combination of questionnaires and semi-structured in-depth interviews could best answer the research questions by providing a comprehensive coverage of all factors considered to shape an organisation's risk appetite, whilst allowing rich and deep insights to be extracted with regard to the most important factors.

3.6.2.2 Gaining access to case organisations and recruiting corporate-level participants and analysts

Access to both case organisations was mainly facilitated through the help of the researcher's supervisor. The supervisor initially approached his contacts in the case organisations through an introduction of the research project and a discussion of the possibility of allowing the researcher to gain access to the senior management. The contacts, who later served as the gatekeepers, brought the request to the executive managements of both organisations. The management later granted the researcher access to their organisations, in return for a detailed summary of research findings and recommendations for future risk appetite projects.

Despite having secured initial access to both organisations, the researcher still had to rely on the help of the gatekeepers for identification of relevant personnel suitable for this study. Upon receiving the names and contact details of suitable personnel from the gatekeepers, the researcher contacted each one of them via emails (Appendix 3.3) and follow-up phone calls to invite them to participate in the study.

In a process similar to that used to recruit risk consultants in stage one, potential corporate participants were also sent an information sheet (Appendix 3.4) that explained the research topic and addressed potential

ethics and confidentiality concerns. A list of interview questions was also provided as requested by several potential participants. Those who had agreed to participate in the study were then contacted via further emails and telephone calls to arrange a mutually convenient time and venue for the interview. Overall sixteen participants (eight in each case organisation) were recruited for the study. A summary of their background (code, gender, job title) and length of interview is provided in Table 3.2 (p. 95).

It was a major challenge to recruit these corporate level participants. Due to the hectic nature of their job, the participants found it difficult to commit time for the research. Also, they did not see immediate benefits that participating in the study could bring to their job. As such, several participants, after expressing an interest initially, later withdrew from the study. The negotiation with most participants took several months in order to settle a convenient date and time for the interview. Still, a number of participants had to rearrange the interview at the last minute in order to accommodate emerging demands from their daily work.

In terms of recruiting independent financial analysts for both organisations, the researcher obtained the names and email addresses from the 'investor relations' tab of the case organisations' websites. There were a total of twenty-six analysts for organisation A and nine analysts for organisation B listed on their websites. An email (Appendix 3.5) was sent to all analysts to explain the research study and invite them to participate. Many refused to participate due to particular company policy inhibiting them from taking part in external surveys. Eventually, nine out of twenty-six and six out of nine analysts took part in the study, giving a response rate of 36% (organisation A) and 67% (organisation B) respectively.

Table 3.2 List of case organisation participants

Code	Gender	Job Title	Length of interview
P01A	Male	Director of Corporate Risk	87 minutes
P02A	Male	Senior Vice President Global Risk Management	66 minutes
P03A	Male	Corporate Risk Manager	30 minutes
P04A	Male	Head of Risk and Reputation, America	52 minutes
P05A	Male	Vice President Global Internal Audit	59 minutes
P06A	Female	Crisis and Business Continuity Risk Manager	41 minutes
P07A	Male	Director of Regional Risk and Reputation, Europe	88 minutes
P08A	Male	Director of Risk Insurance	36 minutes
P01B	Male	Vice President Corporate Safety and Security	56 minutes
P02B	Male	Area Security Manager	57 minutes
P03B	Male	Senior Vice President Procurement	61 minutes
P04B	Male	Area Vice President Sub-Saharan Africa	35 minutes
P05B	Male	Corporate Safety and Security Advisor	48 minutes
P06B	Female	Vice President Corporate Communications, PR & Reputation Management	50 minutes
P07B	Female	Vice President Legal	47 minutes
P08B	Male	Vice President Group Tax	30 minutes

3.6.2.3 Collecting data from independent financial analysts

A short one-page questionnaire was designed to evaluate the risk appetite of case organisations based on Harwood *et al.*'s (2009) framework of organisational risk propensity. This framework is particularly useful in qualitatively assessing an organisation's risk appetite from ten observable risk behaviour attributes, each of which has a dimensional range with 'risk-averse' and 'risk-seeking' on each end of the continuum. The participating analysts were asked to rate on a 7-point scale where they thought their respective organisation would be for each risk behaviour attribute. The average of the ten attributes provided an overall indication of how risk-averse or risk-seeking the organisation was.

The questionnaire was reviewed by the supervisory team before being tested with an analyst who kindly offered to help. Valid advice was received

towards the design and overall appeal of the questionnaire, where the analyst particularly mentioned a lack of clarity in the meanings of two ends of the rating scale. Following the revision, the final questionnaire (see Figure 3.1, p. 96 for a snapshot and Appendix 3.6 for the full version) was administered online to all participating analysts via SurveyMonkey, which was believed to be the most convenient means for the financial analysts in terms of time and resource requirements.

Figure 3.1 Questionnaire for financial analysts

Company Risk Behaviour []

This questionnaire is designed to evaluate the risk behaviour (risk-averse, risk-neutral or risk-seeking) of [] Group [] in its competitive environment. There are 10 questions in total, and each measures a specific aspect of []'s risk behaviour. Please read each question carefully and indicate your opinion on the continuum. Thank you very much for sharing your views with us.

* 1. 'Risk approach': Extent to which risks are managed proactively, ranging from reactive 'crisis management' to proactive 'planned management'.

reactive 'crisis management' [] [] [] [] [] [] [] proactive 'planned management'

* 2. 'Risk horizon': Time period between identifying a potential risk and the expected (or actual) realisation of that risk, ranging from 'short term' to 'long term'.

short term [] [] [] [] [] [] [] long term

* 3. 'Management style': Level of management intervention in strategy implementation, ranging from 'micro-management' where the level of intervention is high, e.g. details of implementation are always requested by management, to 'macro-management' where there is minimum intervention and the management tends to delegate responsibilities.

micro [] [] [] [] [] [] [] macro

* 4. 'Degree of regulation': Level of regulation in the external environment the company operates, ranging from 'regulated' to 'unregulated'.

regulated [] [] [] [] [] [] [] unregulated

* 5. 'Risk encouragement': Level of support for risk taking, ranging from 'cautious' where risk taking is generally discouraged or has to be very cautious, to 'copious' where there are plenty of support.

cautious [] [] [] [] [] [] [] copious

(Note: White boxes were used to anonymise the case organisation)

3.6.2.4 Collecting data from corporate participants of case organisations

As explained in section 3.6.2.1, each participant of the case organisations was asked to complete a questionnaire followed by a semi-structured in-depth interview. The questionnaire (see Figure 3.2, p. 98 for a snapshot and Appendix 3.7 for the full version) was developed in accordance with the ‘stage one’ framework (Figure 4.2, p. 132), with the main purpose of evaluating the ‘weight’ and ‘direction’ of all identified factors on risk appetite. There were three questions that were asked for each factor. Question one, ‘Does this factor influence your company’s risk appetite?’, aimed to find out whether a particular factor is relevant to risk appetite in practice. Question two, ‘Does an increase in the factor increase or decrease your company’s risk appetite?’, aimed to uncover the specific nature or direction of a particular factor’s influence on risk appetite. Finally, question three, ‘How much would you rate the level of the factor’s influence on a scale, ranging from 1 ‘very low influence’ to 5 ‘very high influence’?’, aimed to find out the relative importance (or the ‘weight’) of each factor to risk appetite, so that the most important factors could be identified and further explored in the follow-up interview.

Regarding the follow-up semi-structured interviewing, an interview guide (see Figure 3.3, p. 99 for a snapshot and Appendix 3.8 for the full version) was designed to explore in more depth the key issues emerged from the questionnaire. The interview guide consisted of six main questions, each of which had a few probing questions designed to extract more information when necessary. The first two main questions could be seen as ‘ice breakers’, asking about the participant’s background and his/her particular understanding of the ‘risk appetite’ concept. The background information about the participants is useful to determine if there is any pattern between answers and participant backgrounds. Based on the interpretivism philosophy of this study, it was deemed necessary to check how each participant understood the risk appetite concept. Questions three and four focused on the questionnaire the participant completed in advance. The aim

was to identify any missing factors and further explore the influence of most important factors on risk appetite. The last two main questions were aimed at understanding in more depth the conceptual analogy of this study - the 'living organisations' thinking.

Figure 3.2 Questionnaire for corporate executives and risk managers

Table Tools
Review View Design Layout

Questionnaire - Copy - Microsoft Word

Please answer the following questions for each factor by ticking the relevant boxes:

Q1. Does this factor influence []'s risk appetite?¹

Q2. Does an increase in the factor increase or decrease []'s risk appetite?

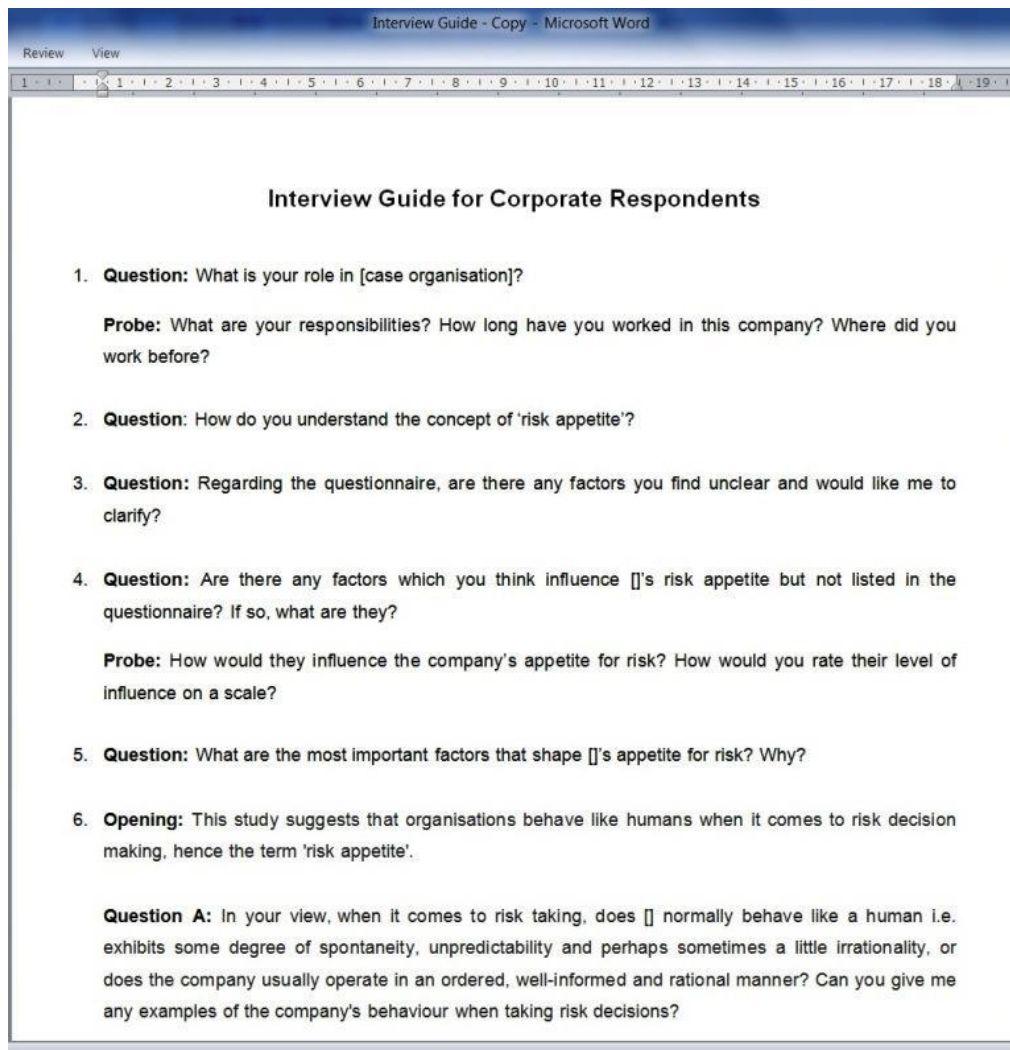
Q3. How much would you rate the level of the factor's influence on a scale, ranging from 1 'very low influence' to 5 'very high influence'?

Note: Explanations of factors marked with '*' can be found at the end of this questionnaire.

Factor	Question 1		Question 2		Question 3				
	Yes	No	Increase	Decrease	1	2	3	4	5
Company age									
Degree of risk-informed decision making									
Company size									
Extent of executive/Board equity ownership									
Degree of masculinity in leadership style*									
Company debt									
Company self-awareness and knowledge of its environment									
Company's past risk taking experience									
Ambitiousness of strategic objectives									
Company risk capacity*									
Company risk management capability									
Frequency of risk reporting									
Perceived riskiness in industry sector									
Information flow to the Board*									
Transparency of actions*									
Board's propensity to take risk									
Executive committee's propensity to take risk									
CEO's propensity to take risk									

(Note: '[]' was used to anonymise the case organisation)

Figure 3.3 Interview guide for corporate executives and risk managers



(Note: '[]' was used to anonymise the case organisation)

The questionnaire and interview guide were reviewed by the supervisory team and then piloted with both case organisations. Regarding the questionnaire, more information was added to the introductory page to improve the clarity of the risk appetite explanation. The wordings of some factors were also modified. For example, a factor originally named 'Degree of access to information' was re-named to 'information flow to the Board' in the final questionnaire. In the interview guide, the order of some questions was changed to create a more logical flow and a particular question was rephrased due to inappropriate phrasing.

During the first pilot interview, the researcher learnt that the way a question is phrased can significantly influence its answer. The question aimed to find out whether the risk taking behaviour of the case organisation was similar to that of a human being, which is mostly rational but can appear irrationality at times. The original question was ‘In your view, when it comes to risk taking, does your company normally behave like a human, i.e. exhibits some degree of spontaneity, unpredictability and perhaps some irrationality, or does the company usually operate in an ordered, well-informed and rational manner?’ When asked this question, the participant (P01A) immediately replied without giving time to think, ‘Oh, we are always rational, we take well-informed decisions’. However, later conversation with the same participant revealed some examples showing that the organisation was not always taking rational and informed risk decisions. This inconsistency made the researcher realise the way the question was phrased might not be appropriate. The characteristics of human risk taking behaviour as shown in the question were all rather negative, particularly with the word ‘irrationality’. In fact, human beings are at most times rational decision makers in face of risk and only occasionally exhibit some irrationality. This was however not captured in the question. The ‘negative nature’ of the question might have held the participant back from giving the ‘honest’ answer.

Given the above thoughts, in the second pilot interview, the same question was modified into, ‘In your view, when it comes to risk taking, does your company normally behave like a human, i.e. mostly rational, but sometimes unpredictable and irrational, or does the organisation always operate in an ordered, well-informed and rational manner?’ The participant (P01B) took some time to think and then answered, ‘Oh, I think we are pretty human’.

Sixteen interviews were conducted during March 2015 to November 2015. While the interviews with organisation A were mostly undertaken face to face in the UK (except for one which was conducted via telephone as the participant was travelling), those with organisation B were conducted via Skype, because the participants were geographically dispersed around

different countries. The interviews lasted between 30-88 minutes and were recorded with prior permission.

3.6.3 Ethical considerations during the research process

During the course of this study, great care had been taken to ensure the research was carried out in an ethically appropriate manner and in line with Oxford Brookes University's Code of Practice for research ethics. Measures which aimed to promote ethical conduct were applied in both the design and the conduct phases. For example, when recruiting the case study participants (who were busy professionals), two primary concerns were of paramount importance: 1) ensuring the participation was entirely voluntary and free from any pressure, particularly from their peers or superiors; and 2) ensuring the time taken away from their work is as minimum as possible. In order to encourage voluntary participation, the researcher contacted each participant individually to clarify that the study was an academic research and their decision to participate would not influence their job in any way. In order to minimise the participant's time spent on understanding the study and reduce the hassle of emailing back and forth, the participant information sheets (see Appendix 3.2 and Appendix 3.4) and the research instruments, i.e. questionnaire (Appendix 3.7) and interview guide (Appendix 3.8), were always enclosed with the invitation emails. In this way, while the contacts with the participants were minimised, with sufficient information about the study provided, the participants were still able to make their decision in an informed and efficient manner. Further, the research instruments, particularly the questionnaires, were designed, reviewed and piloted in order to ensure that completing the questionnaire is time-efficient.

Considerations for research ethics were also demonstrated in the actual data collection process. For instance, the promises that the researcher made to the participants were always kept. This included being punctual in showing up for the interview as well as in strictly keeping the interview within the agreed timeframe. It also included returning the interview transcripts to the participants for accuracy checking within the promised timeframe.

Moreover, during the course of the fieldwork the researcher had always put the participants' needs and convenience at first. For example, all venues where the interviews took place were either at the participants' place of work or at a public place recommended by the participants. When meeting with the participants, the researcher always dressed in appropriate business attire in order to show respect and professionalism.

3.7 Data analysis

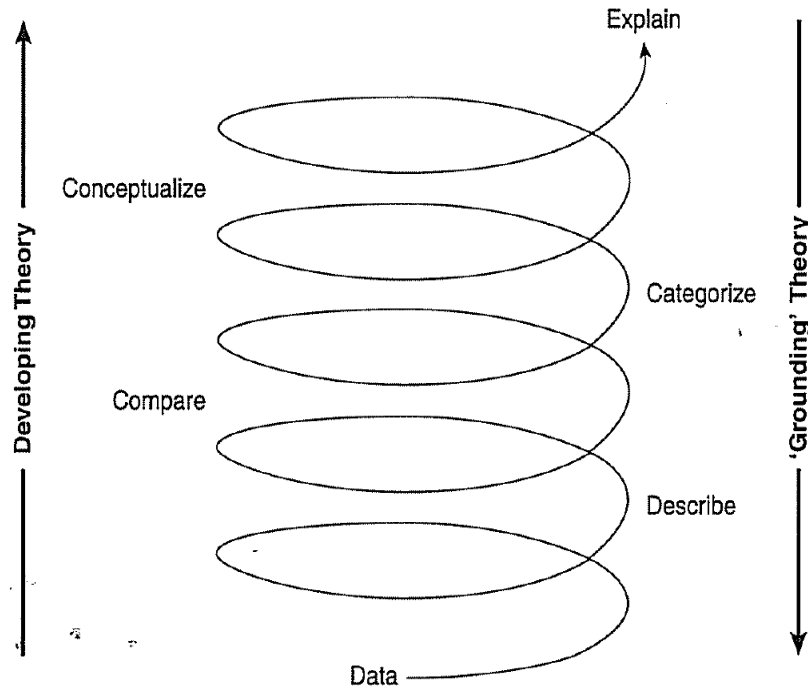
3.7.1 Data analysis approach

The particular approach to data analysis is the key to ensure the overall quality of a qualitative study (Altinay *et al.*, 2015; Saunders *et al.*, 2012). Although the literature on research methodology has put forward a variety of approaches that can be employed to analyse qualitative data (Hennink *et al.*, 2011; Miles and Huberman, 1994; Saunders *et al.*, 2012), there has been limited guidance on selecting the most appropriate data analysis approach, and each available approach appears to have its strengths and weaknesses (Sekaran and Bougie, 2013).

One of the most prominent approaches for data analysis is that of Miles and Huberman (1994), who suggested a broad cyclical and iterative process that encompasses three key phases: data reduction, data display, and drawing conclusions. In this model, collected data needs to be firstly reduced through coding and categorisation, after which the reduced data needs to be displayed in an organised and condensed form to uncover patterns and relationships, which subsequently facilitates the drawing of conclusions. Whilst Miles and Huberman's (1994) approach has been widely acknowledged and used by many qualitative researchers (Lee and Lings, 2008; Sekaran and Bougie, 2013), the model fails to offer much detailed guidance as to the specific tasks within each analytical phase, i.e. data reduction, display, and drawing conclusions (Hennink *et al.*, 2011). Instead, this study followed a more structured model, the 'analytic spiral' approach of Hennink *et al.* (2011: 238), which addresses the limitation of Miles and

Huberman (1994) by outlining specific tasks that need to be carried out during data analysis, including thick description, comparison, categorisation, conceptualisation, and explanation (Figure 3.4, p. 103).

Figure 3.4 The 'analytic spiral'



(Source: Hennink *et al.*, 2011: 238)

3.7.2 Manual versus Computer-assisted analysis

Another important consideration for data analysis is whether to carry out the analysis solely by hand or with the help of contemporary qualitative data analysis software. With the advanced technology and incorporation of IT in research, there are an increasing number of computer-based programmes which serve as effective tools for assisting qualitative data analysis, for instance ATLAS.ti, NVivo, etc. Compared with traditional manual analysis, computer software offers a more structured approach to analysis and is more efficient in organising and searching within a large volume of qualitative data (Faherty, 2010; Gibbs, 2002; Saldana, 2009), therefore allowing the

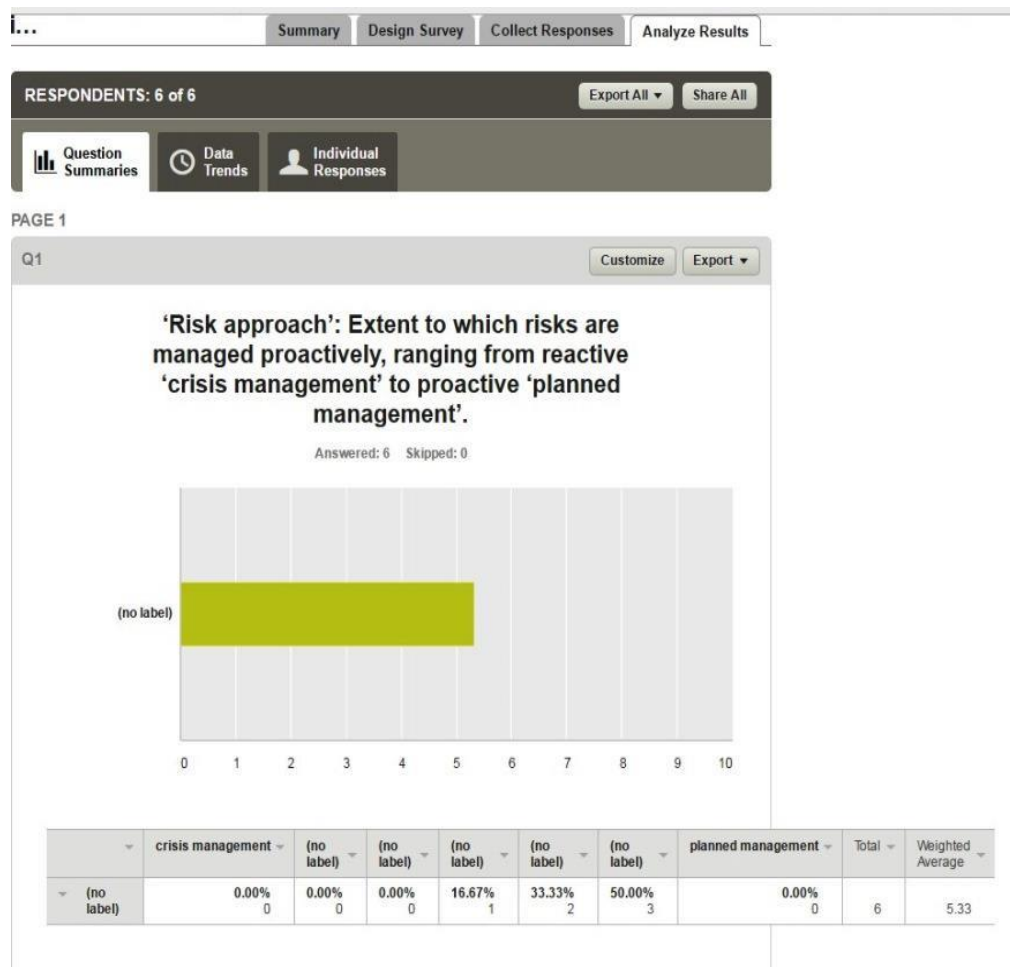
researcher to conduct analysis more quickly (Hennink *et al.*, 2011). For these reasons, NVivo 10 was selected to assist the data analysis in this study.

However, there are potential issues of adopting technology to assist with data analysis. For example, Faherty (2010) points out that there is a learning curve for all researchers to be able to use the software effectively and efficiently, which often takes a considerable amount of time. Researchers who do not have the required experience to use the software may find it difficult perform the analysis. Warren and Karner (2010) warn that contemporary computer-based qualitative data analysis software can only support, but not conduct the actual analysis for the researcher, thus it is recommended that researchers should be familiar with manual analysis before moving onto technological advances. Lewins and Silver (2007) also suggest that researchers who use software for data analysis should remain in control of the interpretive process. Bearing these in mind, the researcher engaged in comprehensive training of both manual and computer-assisted qualitative data analysis in the early stages of this study to become better prepared for the task of actual data analysis.

3.7.3 Analysing the questionnaire data

As explained in section 3.6 data collection, this study used two forms of questionnaire: an online questionnaire (via SurveyMonkey) for independent financial analysts and a paper-form questionnaire for case organisation participants. The online questionnaire was designed to gain an independent evaluation of the case organisations' risk appetite and sought to triangulate the finding of document analysis. The 'mean' of each of the ten questions was obtained from the SurveyMonkey (see Figure 3.5, p. 105 for a screenshot), which automatically calculated the 'means'. An overall average of the 'means' of the ten questions was manually calculated to represent the overall risk appetite level of the particular organisation. The details of this analysis are presented in the Findings Chapter, section 4.2.

Figure 3.5 SurveyMonkey questionnaire analysis



Regarding the paper-form questionnaire for case organisation participants, the analysis began as soon as it was collected by the researcher as the results informed the follow-up interview. On most occasions, the participants returned the questionnaire one day prior to the interview, so that the researcher had some time to thoroughly examine the questionnaire and identify issues to be further explored. The initial examination of the questionnaire focused on identifying the most important factors affecting the risk appetite (i.e. those factors with a '5' or '4' rating) as well as any unexpected answers. However, there were few occasions when the questionnaire was only returned to the researcher moments before the interview, in which case the researcher had to quickly scan the questionnaire and identify relevant issues.

The questionnaire responses were transferred onto a summary sheet (see Figure 3.6, p. 107 for a snapshot and Appendix 3.9 for full version) as the research progresses, recording the number of times that a particular answer has been selected. In order to determine if and how a factor influences the risk appetite (i.e. questions one and two in the questionnaire), the choice that represents the majority responses was treated as the main view. In order to evaluate the importance of a particular factor to risk appetite (question three in the questionnaire), the ‘mean’ and the ‘mode’ of the answers were manually calculated. It was decided that the higher the ‘mean’ and the ‘mode’, the more important the particular factor is to risk appetite. As the importance was rated on a 5-point scale from ‘very little’ to ‘very high’ (Adelson and Mccoach, 2010; Sekaran and Bougie, 2013), factors with ‘mean’ and ‘mode’ that are more than ‘3’ were considered as ‘important’, and those that are equal or less than ‘3’ were considered as ‘less important’.

Regarding the factors with which the case organisation participants unanimously agree on a particular answer, they were labelled as ‘undisputed’; with regard to those where the answers have no clear consensus between participants, the particular factor was noted as ‘disputed’ in order to show that different opinions exist in the organisation. Consequently, all factors in the questionnaire were organised into four categories: important disputed factors (represented in purple), important undisputed factors (represented in blue), less important disputed factors (represented in brown), and less important undisputed factors (represented in green). These categories, which are shown in Figure 4.4 (p. 141) and Figure 4.5 (p. 142), informed the presentation of findings in Chapter Four.

Figure 3.6 Questionnaire response overview for corporate executives and risk managers (Organisation A)

Factor	Question 1		Question 2		Question 3					(Q3)		
	Yes	No	Increase	Decrease	1	2	3	4	5	Mode	Median	Mean
Ambitiousness of strategic objectives	8	0	8	0			1	5	2	4	4	4.125
CEO's propensity to take risk	8	0	8	0		1	1	3	3	4,5	4	4
Degree of risk-informed decision making	8	0	7	1		1	2	2	3	5	4	3.875
Company risk capacity	8	0	6	2		1	2	2	3	5	4	3.875
Executive committee's propensity to take risk	8	0	8	0		1	2	3	2	4	4	3.75
Board's propensity to take risk	8	0	8	0		3		3	2	2,4	4	3.5
Management incentives for risk taking	8	0	8	0			5	2	1	3	3	3.5
International industry competition	8	0	8	0		2	4	2		3	3	3
Company risk management capability	8	0	8	1		2	5	1		3	3	2.875
Aggressiveness of strategic action plans	7	1	7	0			2	4	1	4	4	3.857
Industry reward-to-risk ratio	7	1	6	1			2	4	1	4	4	3.857
Shareholder pressure	7	1	7	1		2	1	3	1	4	4	3.428
Company overall performance	7	1	5	3		1	4	1	1	3	3	3.286
Company's past risk taking experience	7	1	6	5		2	3	1	1	3	3	3.143
Global economic growth	7	1	5	2		3	2	1	1	2	3	3
Company age	7	1	2	5		2	4	1		3	3	2.857
International industry regulation	6	2	0	6		1	2	2	1	3,4	3.5	3.5

3.7.4 Analysing the interview data

All recorded interviews were first transcribed verbatim and were subsequently double-checked by the researcher for accuracy and completeness (Appendix 3.10 provides an example transcript). The verbatim transcripts in stage one fieldwork were sent back to the participants via email for their review and approval of the content and accuracy. This activity, which was termed as 'member-checking' by Lincoln and Guba (1985), increases the credibility for the study and adds internal validity to the overall research process. Any amendments made to the transcripts by the participants were treated as primary data.

All transcripts were imported to NVivo 10 for analysis. A combination of deductive and inductive coding approach was utilised to perform 'data reduction' (Hennink *et al.*, 2011). In other words, transcripts were initially coded with pre-developed codes established in the literature (i.e. particular

factors that influence the risk appetite). Following this, all transcripts were coded again inductively to identify codes emerged solely from the data. Inductively extracted codes were then compared with the deductively extracted codes to compile a complete set of codes. The purpose of including inductive coding in addition to deductive coding was to avoid the formulation of a pre-imposed ‘powerful conceptual grid’ (Atkinson, 1992: 459), which might overlook uncategorised issues embedded in the data (Silverman, 2011).

The coding process focused on highlighting the key words, sentences and paragraphs in the transcripts that were related to the research questions, and placing them into pre-defined codes or labelling them as new codes (See Figure 3.7, p. 109 for a screenshot of a coded transcript). This process was repeated through all transcripts. Memos were also written on most codes and the purpose was to record any specific thoughts that could either connect different codes or provoke an initial understanding of the phenomenon under study (Faherty, 2010). The memos appeared immensely helpful during subsequent analysis.

Following the completion of coding all transcripts, the codes were rearranged hierarchically to form broad and sub categories. This led to a hierarchical presentation of the data in relation to the research questions. (See Figure 3.8, p. 109 for a screenshot of the ‘node tree’).

Alongside the coding, the researcher read and re-read the coded excerpts several times to generate an understanding of the informants’ accounts, which helped to formulate initial ideas in answering the research questions. This interpretation of codes started as soon as the first verified interview transcript was coded, so that the researcher could check for theoretical saturation (Hennink *et al.*, 2011; Lee and Lings, 2008). During the analysis, the researcher also paid attention to the number of times that a particular word, phrase or code appeared across all informants to determine if there were any patterns in the data.

Figure 3.7 Coded transcript

The screenshot shows the NVivo interface with a coded transcript. The left pane lists a hierarchy of codes: Topic 1 Conceptualisation of risk appetite (with sub-codes 1-Risk appetite definitions, 2-Risk appetite characteristics, 3-Issues), Topic 2 Factors influencing risk appetite (with sub-codes 1-Organisational factors, 2-Environmental factors, 3-Emerging factors, 4-Most important factors), and Topic 3 living organisation' perspective. The main pane displays a transcript with dialogue between 'D' and 'NZ'. Codes are applied to specific segments of the transcript, such as '...influences to risk appetite is your executive committee and your CEO. Your board is a balance.' and '...that might not be a good idea but then they are still - they might hope'.

Figure 3.8 Node tree

Nathan's PhD - 261115.nvp - NVivo

Analyze Query Explore Layout View

Videos Pictures Memos Import From Other Sources Classification Sheets Attribute Values Report Extract Items List Project Classification Sheets To Other Destinations Export Purchase Transcript Transcription

Look for: Search In Find Now Clear Advanced Find

Name	Sources	References	Created On	Created By
Topic 1 Conceptualisation of risk appetite	7	14	08/06/2015 23:10	N
1-Risk appetite definitions	4	4	09/07/2015 20:26	N
2-Risk appetite characteristics	6	8	09/07/2015 20:26	N
3-Issues	1	1	09/07/2015 20:46	N
Topic 2 Factors influencing risk appetite	0	0	26/06/2015 11:04	N
Sub-theme 1 Organisational factors	7	61	26/06/2015 11:09	N
'Decision-maker' Component	7	22	26/06/2015 12:25	N
Ability to sense	2	2	26/06/2015 13:29	N
Board debate	2	2	26/06/2015 13:25	N
Board diversity	2	2	02/07/2015 10:32	N
Board size	3	3	26/06/2015 13:23	N
Board's risk propensity	5	6	26/06/2015 13:07	N
CEO emotions	2	2	26/06/2015 13:22	N
Managerial risk-taking incentives	4	4	26/06/2015 13:28	N
Senior management risk propensity	1	1	26/06/2015 13:17	N
'Identity' Component	6	20	26/06/2015 12:04	N
'Information and Communication Systems' Component	2	2	26/06/2015 13:04	N
'Internal Standards and Processes' Component	4	8	26/06/2015 12:56	N
'Knowledge' Component	5	5	26/06/2015 12:34	N
'Perception of Environment' Component	2	2	26/06/2015 13:02	N
'Strategy' Component	2	2	26/06/2015 12:50	N
Sub-theme 2 Environmental factors	7	27	26/06/2015 11:10	N
'Experimentation' Component	1	1	02/07/2015 10:05	N
'Interactive processes and communication with environment' Component	5	11	26/06/2015 13:32	N
'Trigger' Component	5	15	26/06/2015 12:37	N
Sub-theme 3 Emerging factors	2	3	26/06/2015 11:09	N
Company formality of risk appetite	1	1	26/06/2015 15:32	N
Organisation's purpose	1	1	02/07/2015 09:46	N
Organisation's risk management maturity	1	1	26/06/2015 15:24	N
Sub-theme 4 Most important factors	7	35	26/06/2015 11:10	N

3.8 Ensuring research quality

Unlike quantitative research where the criteria (such as reliability and validity) for assessing research quality have long been established, the criteria for assessing qualitative research have not been widely agreed (Cassell and Symon, 2011). While many qualitative researchers have proposed their own criteria (Spencer *et al.*, 2003; Yardley, 2000), one of the most used quality criteria seems to be Lincoln and Guba's (1985) 'trustworthiness' criteria, which includes the concepts of credibility, transferability, and dependability. Credibility refers to the use of multiple forms of evidence, which improves researcher confidence about data analysis as well as the findings. Transferability concerns to what extent the findings of the study can be applied to other settings. Dependability is similar to the concept of reliability in quantitative research, which concerns the degree to which the study can be repeated.

In addition to Lincoln and Guba's (1985) criteria, Gummesson (2000) proposed 8-item criteria (Appendix 3.11) that are specifically designed to help readers assess the quality of qualitative case study research. These criteria were constantly used by the researcher during the course of this study to maximise the research rigour and overall quality.

3.9 A reflective account of the research process

There were several challenges during the research process and I wish to discuss and reflect on two particular ones: the choice of research philosophy and the actual conduct of the interviews.

At the early stage of research design, I pondered for a long time over the specific philosophical position I should take. After reading much literature on different research philosophies, I felt that pragmatism or realism could best describe my natural belief. This was because my understandings of

what the reality means and whether knowledge is socially constructed lay somewhere in the middle between positivism and interpretivism, and that I wanted to adopt the most appropriate approach to best answer the research questions. Initially, these two philosophies seemed to suggest a mixed-method approach, but the scarcity of existing knowledge in the topic area and the practicalities of access required for conducting a large-scale quantitative study had rejected a mixed-methods design. It was more sensible to conduct a small scale, in-depth exploration into the topic, before any large-scale study could be considered. But for a qualitative exploratory study, neither realism nor pragmatism seemed a very good fit; rather, interpretivism was more appropriate for studies of this nature. This led to the question: can I adopt a different philosophy other than the one that mostly matches my belief? The answer was yes, but adopting a view that was different to my original belief to conduct research was challenging. I had to train my brain to think more like an interpretivist and limit the impact of the positivistic side of the brain. Having been brought up and educated in a dominantly positivistic worldview for most of my education, it was very challenging to focus on the ‘messy’ interpretation of qualitative data that was much less structured. In order to train myself to think like an interpretivist, I spent long periods of time learning and practising techniques often used by interpretivists, particularly on data analysis. This training played a positive role in helping me better interpret my data and link the findings back to the literature.

Another challenge relates to the actual conduct of the interview. Although I had previous experience in conducting qualitative interviews and I made sufficient preparation before each interview, the actual conduct was still challenging, where the active listening, making sense of what had just been said and picking out issues of importance and asking the right follow-up questions were very difficult. Perhaps due to the difficulty in accessing those participants, I conducted each interview with the highest intensity of my attention, and after each interview I was mentally exhausted. I tried my best to explore the topic in detail but inevitably there could be interesting issues that could not be explored. During the reading of the interview

transcripts I realised I could be asking further questions in various places to elicit potentially more important insights. That was a shame and a limitation. Also I have discussed the idea of follow-up interviews with those participants and this was impossible, as participating in this study for those people was almost a one-off exercise: 'they've done their bit and that's it'. If there were an opportunity to conduct this research again, more efforts would be spent on nurturing relationships with the participants, so that they could be able to allocate more time for the research.

CHAPTER FOUR

FINDINGS

4.0 Introduction

This chapter presents the findings from the two primary research stages and comprises two main sections. Section 4.1 presents the ‘stage one’ findings based on unstructured interviews with risk consultants. It identifies and explains the key factors that shape an organisation’s risk appetite, and presents a refined framework of risk appetite factors (Figure 4.2, p. 132). Section 4.2 presents the ‘stage two’ findings. It starts by reporting the findings of an online survey with financial analysts, in which the case organisations’ risk appetite is evaluated and compared. Then, the section presents findings obtained from the case study. The factors that shape each case organisation’s risk appetite are identified and evaluated, and two case-specific frameworks of risk appetite factors are developed (Figure 4.4, p. 141 and Figure 4.5, p. 142). This section also reports the interrelationships between different risk appetite factors.

4.1 ‘Stage one’ findings – Unstructured interviews with risk consultants

The purpose of this stage is to identify and explain factors that shape an organisation’s risk appetite from a generic-business and non-industry-specific perspective, and to enrich the conceptual framework derived from the literature. Ten highly respected risk consultants with an average of twenty to twenty-five years of experience participated in the unstructured in-depth interviews. These consultants are also globally recognised risk appetite experts, and two of whom are even regarded as the gurus of risk appetite. Such a group of high quality informants helps to ensure the quality of this stage’s findings.

Each interview begins with a question regarding risk appetite definition, which helps to align the researcher's understanding of the topic with that of the informant and serves as an 'ice-breaker'. There is a notable disparity between the two gurus in conceptualising the risk appetite. One (P01) defines risk appetite as '*a deeply-seated internal tendency of an individual or organisation to take risks*'. He uses the physical appetite for food and drink as an analogy for risk appetite, and describes it as an organisation's physical appetite for risk. He argues that the appetite for risk is an internal drive of an organisation that naturally exists, and it is dispositional rather than situational, meaning that it is only determined by an organisation's internal characteristics, and external forces have no influence whatsoever.

However, this conceptualisation of risk appetite contrasts strongly with that of the other guru (P08), who contends that viewing risk appetite as a natural drive is '*entirely erroneous*'. Instead, he describes risk appetite as an organisation's 'fight-or-flight' response to risks, which could change according to any internal and external influences. This reflects a combined (dispositional and situational) view of risk appetite.

While other informants seem consistent with the combined view of risk appetite, different definitions of the concept exist. For example, informants P05 and P06 argue that risk appetite is all about the 'acceptability of risks'; others (e.g. P02; P03; P09) define it as an organisation's 'willingness to take risks'. These two types of definitions, however, are criticised by informant P04 on the grounds that the term risk is seen as an organisational threat or danger that needs to be tolerated, whereas the potential rewarding and opportunistic aspect of risk is ignored. He (P04) maintains that risk should be viewed more positively in organisations, because no organisational goals could be achieved without taking any risks. Therefore, he suggests that one should avoid using unfavourable words when defining risk appetite, such as accept, tolerate and willingness.

This lack of consensus in risk appetite definition indicates that the subject area is still at an early development stage. With many varying viewpoints

and no sign of a convergence, the area of risk appetite faces a challenge to move forward. Informant P01 proposes a possible solution to this issue: one, to have an open mind and accept all the debates; two, to elect a ‘referee’, i.e. a central authority for the topic area, to synthesise the debates. He recommends that the International Standards Organisation (ISO), who published much credible guidance on risk management, should become the referee and take the area forward. He noted:

‘...the problem here is who is going to bring together these different voices, and who is going to act as a kind of ‘referee’. It should be someone like the Institute of Risk Management as a professional body, but they are also a player, so they can’t be the referee because they are playing in the game. They have a view of risk appetite themselves. So it’s difficult to see who is going to... it maybe the Corporate Governance, it might be the ISO. Maybe the ISO should do it.’ (P01)

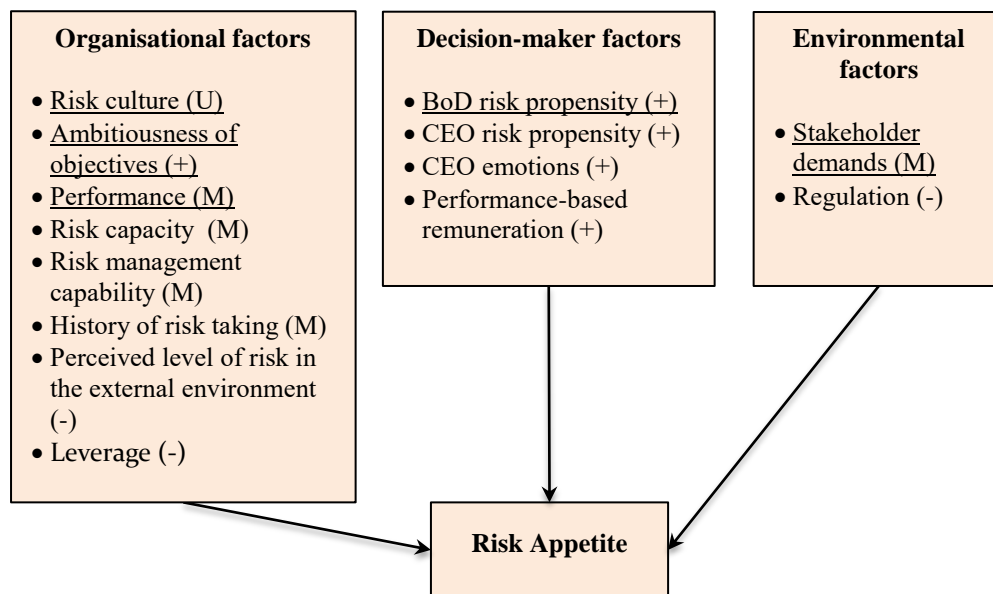
In this thesis, risk appetite is considered as having a combined (dispositional and situational) nature and the ‘working’ definition on p.1 concurs with the view of six informants (P02; P03; P05; P06; P07; P09), who defined the risk appetite as the amount of risk an organisation is willing to take to achieve its objectives. In addition to the perspective of risk consultants, the definition of risk appetite is further explored from the perspective of case study participants in section 4.2.2.1. A unified definition of risk appetite, which synthesises the findings with the literature, is provided on p. 181.

4.1.1 Factors that shape an organisation’s risk appetite

Data analysis indicates that the factors which shape the risk appetite of an organisation can be categorised into three groups, which may be labelled as ‘organisational’, ‘decision-maker’ and ‘environmental’ factors. Organisational factors are internal elements relating to an organisation’s characteristics, features or functions. Decision-maker factors are those directly relating to an organisation’s key decision-makers. Environmental factors are external elements that reside in the generic PESTE environment. Figure 4.1 (p. 116) presents a summary of these factors. The underlined

factors, including risk culture, ambitiousness of objectives, performance, BoD risk propensity and stakeholder demands, are key elements which exert a more significant influence on risk appetite than other factors. The details of why and how each factor influences the risk appetite are reported in the following sub-sections. In addition, a number of factors seem to be interrelated to each other and these relationships are presented in section 4.1.1.4.

Figure 4.1 ‘Risk consultant’ framework of factors that influence an organisation’s risk appetite



Underlined factors: key factors that shape the risk appetite.

+/-: this factor is positively/negatively associated with the risk appetite.

M: Both positive and negative associations are likely for this factor.

U: The influence of this factor on risk appetite is unclear.

4.1.1.1 Organisational factors

Risk culture

An organisation’s risk culture is identified as a key factor that might affect risk appetite. Risk culture is an organisation’s shared values and beliefs about risk in two aspects: First, the nature of risk, i.e. is risk a good or bad thing? Is risk something which threatens an organisation and needs to be

protected against, or is risk something exciting which offers opportunities thus an organisation should actively engage and exploit? Second, the extent to which risk is taken into account in key decision making. Every organisation has a distinctive risk culture based on its unique organisational 'make-up', which may include vision and mission, history, structure and employees. It is this risk culture that plays a key role in determining the types and amount of risk the organisation is willing to pursue. Organisations with different make-ups will have different risk cultures and thus different risk appetites. For example, informant P01 explained how sports clubs with different vision and mission might have different risk appetites:

'Our risk culture will shape the amount of risk that we take in our sports club. So how many supervisors do we have, how often do we renew or maintain our service equipment, how well do we train our staff. Now if your culture is 'what's more important is we have a great time, everybody has a fantastic experience, and we are not so worried about reputation and safety', then your behaviour will be different. You will be checking your equipment less, having less training, all of these things will be downplayed, because what's more important is the experience. If your risk culture is 'what's more important is that everybody is safe and our reputation is protected', then that will affect your behaviour in terms of what you allow your people to do in the execution of the sports. And exactly the same is true for businesses.' (P01)

Despite this example, the other nine informants could not explain how risk culture may influence the risk appetite, and whether the influence could be positive or negative. Informant P01 and P08 argue that there is limited existing knowledge on the area of risk culture and further research is needed.

Ambitiousness of objectives

An organisation's objectives, commonly considered as 'what we as a company are trying to achieve' (P01; P05) and 'where we want to go' (P07; P08), seem to be another key factor playing a determinant role in an organisation's risk appetite. However, it appears that it is the ambitiousness of an organisation's objectives, rather than the objectives themselves, that shape the risk appetite. It is noted that highly ambitious objectives require

an organisation to have an equally aggressive risk appetite to accommodate business activities that go out of the ‘comfort zone’, whereas an organisation with conservative objectives could just follow the most basics and operate with a low risk appetite. Informant P01 supported this view with an example:

*‘...In the situation of global financial crisis, for some organisations the objectives might be simply to survive. And for others the objectives might be to reshape the organisation in order to thrive. If your objectives are simply to survive, then you have a much more conservative, protective, low risk appetite; if your objectives are, to reshape your company in the light of the external shock in order to do something different, then you have a much higher risk appetite.’
(P01)*

In the above example, ‘thriving’ in the context of financial crisis is a more ambitious objective than ‘surviving’, which demands an organisation to increase its willingness for risk-seeking activities. Therefore, the ambitiousness of an organisation’s objectives seems to be positively related with an organisation’s risk appetite.

Performance

Another key factor likely to shape the risk appetite is the performance of an organisation. Performance refers to an organisation’s performance level relative to its aspirations or targets. An organisation meeting or exceeding its aspirations is regarded as well-performing, whereas one who falls behind its aspirations would be seen as under-performing. It appears that the way an organisation’s performance influences its risk appetite is not definitive.

With regard to a well-performing organisation, a common view among most informants is that the organisation would increase its risk appetite and take more risk, because the organisation knows that it has the ability to deliver its promises, and the ‘positive feedback’ and the ‘increased confidence’ resulted from performing well could further boost the organisation’s willingness for more risk taking. This was illustrated from informant P02:

'So if it's a very 'well-oiled machine', and everything is going well, it can afford to take a bigger level of risk because it has better people, better systems, better processes, better customers, better cash flow, and can afford to take the risk.' (P02)

However, two informants (P02; P10) adds that a well-performing organisation could also choose to take less risk, because it might not see the benefit or the need to take on extra risk and therefore may not want to take any chance that could jeopardise what the organisation has already achieved.

For an under-performing organisation, the view is that the organisation could become more cautious and thus reduce its risk appetite, because it might not want to *'risk the company for any further decline'* (P04). However, some informants (P05; P06; P10) acknowledge the opposite possibility that an under-performing organisation that suffers deeply could become more risk-seeking, because it has *'nothing more to lose'* (P06). For such an organisation, taking on an increased level of risk is often considered as the only means to improve organisational performance, hence the risk-seeking behaviour of trying to *'gamble its way out of the trouble'* (P06).

Risk capacity

An organisation's risk capacity appears to play a key role in affecting its appetite for risk. Risk capacity is defined as the absolute maximum amount of risk an organisation is able to take in financial/monetary means, which creates a legitimate upper limit for the risk appetite. It is noted that risk appetite should always be kept well within the risk capacity, as otherwise the organisation could be taking risks at a level that is more than it could afford, hence placing itself on the verge of collapse. As informant P07 explained:

'If your risk appetite is too close to your risk capacity, and you make one small mistake, it could totally wipe out your entire company. This was exactly the case with lots of large firms back in 2008 financial crisis.' (P07)

Regarding how risk capacity could influence the risk appetite, there seems to be two schools of thought. One school argues that changes in an organisation's risk capacity do not change its risk appetite. According to informant P01, this is because in some organisations risk capacity only serves as a benchmark, which is used to gauge whether the risk appetite has been set at an appropriate level. As long as the risk appetite is within its risk capacity, risk capacity changes do not trigger a change in risk appetite.

In contrast, another school postulates that if an organisation's risk capacity has increased, it ought to increase its risk appetite accordingly, otherwise the organisation's shareholders and potential investors might consider the organisation as overly conservative and therefore criticise the organisation for not utilising its available risk capacity to maximise returns. One informant (P08) recalled an example:

'Look at the General Electric (GE) in the 1980s, they had an enormous risk capacity: the electrical fire power, the know-how, the cash resources. But you had the CEO who was just building an enormous cash mounting, and he didn't have a great risk appetite. In fact, he was criticised for that and the new board which then turned GE into Marconi had an appetite for doing all sorts of strange things.' (P08)

Additionally, one informant (P06) highlights that the relationship between risk capacity and risk appetite may also be related to the nature of the industry in which the organisation operates. It seems that within a particular industry, there is a common view on what is generally acceptable and what is not with regard to risk taking. In an industry (such as construction or energy) where risk taking is generally discouraged, changes in risk capacity would only have a minimal, if any, impact on the risk appetite.

Risk management capability

Seven informants (P01; P02; P03; P04; P05; P06; P08) points out that an organisation's risk management capability may be a crucial factor that

affects the risk appetite. Risk management capability, among those informants, is perceived as a broad and multi-dimensional construct, encompassing the awareness and understanding of risk at various organisational levels, as well as risk management skills and know-hows.

According to informants P04 and P06, an organisation's risk management capability determines the types of risk it is willing to take, because an organisation with good risk management capability would probably have a clear idea about *'the core competences it has got'* and *'which risk it has the specialty to manage well'* (P04; P06).

However, informants P01 and P08 argue that such knowledge about risk specialty could, but not necessarily would, lead to the organisation taking the risks, because it might not have adequate capacity to support the risk taking. Equally, an organisation with a large risk capacity could have a relatively poor capability to identify risks and devise meaningful risk controls. In such a case, the company may choose not to engage in any risk taking. Therefore, risk capacity and risk management capability are two factors that work in tandem in supporting organisational risk taking. As one informant (P08) noted:

'...you will need to have both risk capacity and capability if you are going to run a high risk strategy and expect it to be having a sustainable long-term future.' (P08)

Additionally, the relationship between risk appetite and risk management capability seems to be a 'U' shape. That is, according to informant P07, if an organisation has no or little risk management capability, it will be less likely to conduct any risk identification activities, and thus may unknowingly take on a high level of risks. If such an organisation were to develop its risk management capability, it would then recognise the various risks it is exposed to, and may probably reduce its appetite for risk. As the organisation's risk management capability continues to grow, provided that it has sufficient risk capacity, it might start to take more risk again, hence

depicting a U-shaped relationship between risk management capability and risk appetite.

History of risk taking

The history of an organisation's risk taking seems to be another influential factor for risk appetite. History of risk taking entails an organisation's previous risk taking experiences and the nature (successful or unsuccessful) of those experiences. Several informants (P01; P04; P05; P07; P09) argue that an organisation that has often been successful in previous risk-taking experiences would probably be more willing to take risk, because it has more confidence in itself and its ability to deliver. However, informant P06 notes that this may not always be the case because the organisation might not see the benefit or need for an increased risk appetite.

Informants P04 and P09 claim that an organisation with much unsuccessful experiences in risk taking is likely to be more conservative in future risk taking. However, it is also possible that the organisation could choose to maintain or even increase its risk appetite, because it might have learnt from its past mistakes and thus become more capable of managing the situation, or the organisation could just be reckless, hoping that potential rewards from increased risk-seeking activities could compensate for previous failures.

Perceived level of risk in the external environment

The organisation's perceived level of risk in its external environment could affect its willingness to take risk. According to informants P02 and P07, a favourable external environment with a low level of perceived risk might increase an organisation's risk appetite, whereas an unfavourable environment with a high level of perceived risk is likely to undermine the risk appetite. As informant P02 explained:

'If you take the situation right now, corporations in the US are worried about this continuation of the 'funding cuts'. I was reading this morning that many corporations are starting to hold cash, so their risk appetite on the cash flow side has gone down.' (P02)

In the above example, US organisations had perceived the business environment (February 2013) as unfavourable due to a continued threat of financial cuts. This in turn led such organisations to display a conservative behaviour of cash holding, hence demonstrating a reduced risk appetite.

Leverage

The leverage of an organisation emerged as a factor that might influence the risk appetite. According to informant P04, leverage refers to the amount of debt used to finance an organisation's operation, which tends to reduce its risk appetite. The reason is that a leveraged organisation has a regular financial commitment to repay its debt. Failure to keep this commitment would usually result in serious consequences such as disruption to the organisation's operation, asset repossession or bankruptcy. As such, a highly leveraged organisation tends to be very prudent in taking risks, as any unnecessary risk-taking decisions could impair the organisation's ability to repay its debt. On the contrary, an organisation with little debt (i.e. low leverage) might be more comfortable to exploit emerging opportunities and take on an increased level of risk.

4.1.1.2 Decision-maker factors

BoD risk propensity

The collective risk propensity of an organisation's BoD has been identified by all informants as a key factor that positively shapes the organisation's risk appetite. According to informant P03 and P06, because the BoD has the ultimate responsibility in leading an organisation and determining the risk appetite, its collective propensity for risk taking is likely to shape the types and amount of risk that it allows the organisation to take.

However, as the BoD generally comprises a team of executive and non-executive directors with a dynamic combination of different individual risk propensities, how to properly determine the collective risk propensity of the BoD remains a challenge. Three informants (P05; P07; P09) suggest that BoD's risk propensity may not simply be the sum of the risk propensities of all individual directors, instead it is likely to be the collective risk propensity of the most powerful members, such as the Chairman and the CEO. This is because the Chairman and the CEO are usually at the top of the decision-making hierarchy and provide the overall leadership for other directors, but as informant P05 notes, such a strong personal influence of the Chairman and the CEO is unlikely in an organisation that strives for consensus in decision-making.

CEO risk propensity & CEO emotions

The risk propensity of the CEO is likely to have a positive relationship with an organisation's risk appetite. According to informants P09 and P10, being the most powerful member on the BoD, the CEO has the authority to align the organisation's risk appetite with his/her own risk propensity, even if sometimes that is counter-intuitive to other directors.

However, the positive relationship between CEO risk propensity and risk appetite is based on a premise that the CEO has a dominant decision-making power on the BoD. If the CEO has limited power in taking Board decisions, then the influence of his/her own risk propensity on the organisation's risk appetite could be very much constrained.

Three informants (P04; P05; P06) suggest that in the case of a powerful CEO, the CEO's emotional states at the time of decision making, including positive or negative mood, could override his/her own risk propensity and thus lead to irrational risk-taking decisions. As informant P04 argued:

'I certainly see it [the influence of CEO emotions on risk appetite] in financial services. Fred Goodwin, the man was at the top of the Royal Bank of Scotland. He was a very emotional man, very unpleasant, aggressive man. And I believe that had a definite impact on the way they took risk. And also Dick Fuld, he was the CEO of Lehman Brothers, talked about "crushing" his rivals...so again a quite emotional man.' (P04)

Performance-based remuneration

Five informants (P04; P05; P06; P07; P09) argue that the way in which the remuneration to the BoD is designed can shape the organisation's risk appetite. Remuneration may include cash bonuses and/or stock options and can be designed to reward desired behaviour and/or performance. However, inappropriately designed remuneration could drive undesirable organisational risk behaviour that is inconsistent with the risk appetite. For example, informants P06 and P07 claim that short-sighted remuneration that focuses only on boosting short-term performance tends to induce unnecessary risk-seeking behaviour. The consequence can be catastrophic to an organisation's long-term viability. As informant P04 explained:

'In financial services, people get paid for bonuses, particularly bonuses based on short-term performance. That tends to encourage them to take more risk, because they can generate a bonus from a short-term performance, get lots of money, and if the company does badly in the long term, it doesn't matter. Dick Fuld from Lehman Brothers, before it failed, earned half a billion dollars, and most of that was bonuses. So you could say what incentive did he have to be conservative? None at all.' (P04)

As such, a more sensible approach to incentivising senior decision makers is perhaps to design a remuneration policy that is focused on rewarding long-term performance, as this could encourage the decision makers to be more vigilant in making risk-taking decisions. However, informant P06 warns that determining the appropriate timescale is crucial as overly stretched remuneration can be demotivating.

Informant P05 states that in construction or energy organisations where health and safety is more important than financial performance,

remuneration policies tend to be rewarded for reduced risk-taking. In this case, remuneration decreases the risk appetite. She (P05), therefore, argues that the influence of remuneration on risk appetite is dependent upon the nature of the organisation's strategic objectives.

4.1.1.3 Environmental factors

Stakeholder demands

The demands of an organisation's stakeholders emerged as an important factor that could influence the risk appetite. Stakeholders typically include a variety of groups such as shareholders, employees, customers, regulators, governments, communities, etc. Four informants (P04; P05; P06; P07) argue that due to competing demands of different stakeholder groups, an organisation might need to behave differently to satisfy different demands. Some demands might require the organisation to take more risk, some might require the organisation to be more risk-averse, and some might have little or no influence on the organisation's risk appetite.

Two informants (P05; P09) state that a common challenge in most organisations is how competing stakeholder demands can be balanced, especially in situations where one stakeholder group wants to increase return on investment and the other group doesn't. In such circumstances, it is suggested that an organisation should prioritise its stakeholders and then abide by the particular group with which the organisation perceives as being more important. As informant P09 noted:

'You need to filter down to how much influence a stakeholder has, and how much the company is going to listen to it and comply. For example, your bank has a lot of influence. If you have a big loan, then the bank owns part of your company. You've got to have a lot of meetings with the bank, telling them what direction you are taking. And they may not agree with your risk appetite and tell you to tighten it up a little bit, then you've got to do it' (P09)

Regulation

Regulation seems an important factor that could shape an organisation's risk appetite. In most cases, regulation is seen to be a constraint that prevents organisations from improper risk behaviour, thus imposing regulations may be seen as a means to moderate an organisation's risk appetite. In some cases, however, regulations may provide opportunities for an organisation to increase its risk appetite. As informant P06 explained:

'Regulation is usually a constraint, because they are there to philosophically protect the social good in a sense, to stop you doing things which are unethical. But regulation is also an opportunity. If there is something which is mandated by regulation, and you have a really excellent competence delivering that thing, you should be more successful than someone who doesn't.' (P06)

Nevertheless, it is noted that regulation can only influence the risk appetite if the organisation takes it seriously and complies with it, and there are no ways to bypass the regulation. Informant (P07) warn that in reality regulation is not always taken seriously by organisations, so the effects of regulation on risk appetite is minimal. As she noted:

'Regulations will only influence your willingness to take risks if the regulations are taken seriously, and if there are no mechanisms to work around the regulation. I've seen companies... who create off balance sheet structures which disguise the company's risk taking, then regulations may not have any effect.' (P07)

4.1.1.4 Interrelationships among identified factors

Data analysis suggests that a number of factors identified in the previous section also influence each other. The existence of these interrelationships could therefore affect the relationship between a particular factor and the risk appetite. This section discusses these interrelationships.

One of the most interrelated factors appears to be risk culture. Risk culture seems to shape the BoD's and CEO's risk propensity, two key 'decision-maker' factors deemed to have a positive relationship with the risk appetite. Informant P01 argues that since risk culture is a shared belief about risk that is formed over a long period of time among organisational members, it is likely to moderate the 'risk views' of its members, especially the BoD and the CEO when making risk-taking decisions. However, informant P01 also noted that risk culture might in turn be influenced by the risk propensity of the BoD or the CEO, but this would require them to firmly uphold their views for a prolonged period of time through sending constant messages that challenges the conventional risk culture. Moreover, risk culture may be affected by an organisation's past risk-taking experience. Three informants (P01; P04; P05) posit that repeated behaviour shapes culture, thus repeated successes or failures in the past may therefore change how organisational members view risk and how risk is considered in decision making.

Board's risk propensity and CEO's risk propensity, despite being influenced by risk culture, could also be affected by the specific design of the remuneration. Three informants (P04; P07; P09) note that remuneration designed to reward short-term performance may provide the BoD and the CEO a temporary 'boost' to their risk propensities, propelling unnecessary risk-taking decisions that could endanger the organisation. Moreover, the 'inappropriately' designed remuneration, according to informant P06, may send misleading messages to the wider organisation that promote improvident risk behaviour, thus negatively impacting on the organisation's risk culture over time. Furthermore, the risk propensities of the BoD and CEO may also be shaped by the organisation's history of risk taking. It is noted (P07; P09) that previous risk-taking experiences, depending on whether they were a success or failure, may positively or negatively impact on the risk propensities of the BoD and CEO to make future decisions in similar situations.

It has been found that the ambitiousness of an organisation's objectives is positively related with the risk appetite. However, the level of the

ambitiousness may be influenced by two other factors, the BoD's risk propensity and the perceived level of risk in the external environment. For example, since the BoD is often responsible for setting an organisation's overall objectives, its risk propensity is likely to have a positive impact on the level of ambitiousness of the final objectives (P03; P05). Particularly, a BoD that is more risk-seeking is likely to establish more ambitious objectives compared with a rather conservative BoD. With regard to the organisation's perceived level of risk in the external environment, it is noted (P01; P02) that environmental scanning is an essential step in the objective-setting process, and depending on how risky the external environment is perceived, the organisation may establish more or less ambitious objectives. Nevertheless, different organisations may have differing perceptions of the level of risk in the external environment. While some may perceive a favourable external environment with a low level of perceived risk, others might perceive the opposite. According to informant P07, this perception may be dependent upon the particular strengths of the organisation in managing risk, which is related to the organisation's risk management capability.

The amount of leverage an organisation possesses may moderate the relationship between its risk capacity and risk appetite. According to informant P04, if an organisation's capacity for risk is mostly comprised of debts (i.e. the organisation is highly leveraged), increasing risk capacity is more likely to reduce the risk appetite, as any risk-taking activity could threaten the organisation's ability to meet its repayment obligations. However, for an organisation with little or no debts, the influence of leverage on the relationship between risk capacity and risk appetite might be negligible.

Although the above interrelationships add an extra layer of complexity in understanding and analysing the risk appetite, these influences should not be overlooked.

4.1.2 Enriching the conceptual framework

Overall, stage one identifies a variety of factors and their impacts on an organisation's risk appetite. When comparing the 'risk consultant' framework (Figure 4.1, p. 116) with the conceptual framework (Figure 2.4, p. 74), several similarities are notable. First, the three broad categories of factors (i.e. organisational, decision-maker and environmental) as illustrated in the conceptual framework remain unchanged in the risk consultant framework, as all informants agreed and embraced this categorisation. Second, almost all factors and their impacts on risk appetite in the 'risk consultant' framework are echoed in the conceptual framework, except for one emerging factor: 'leverage'.

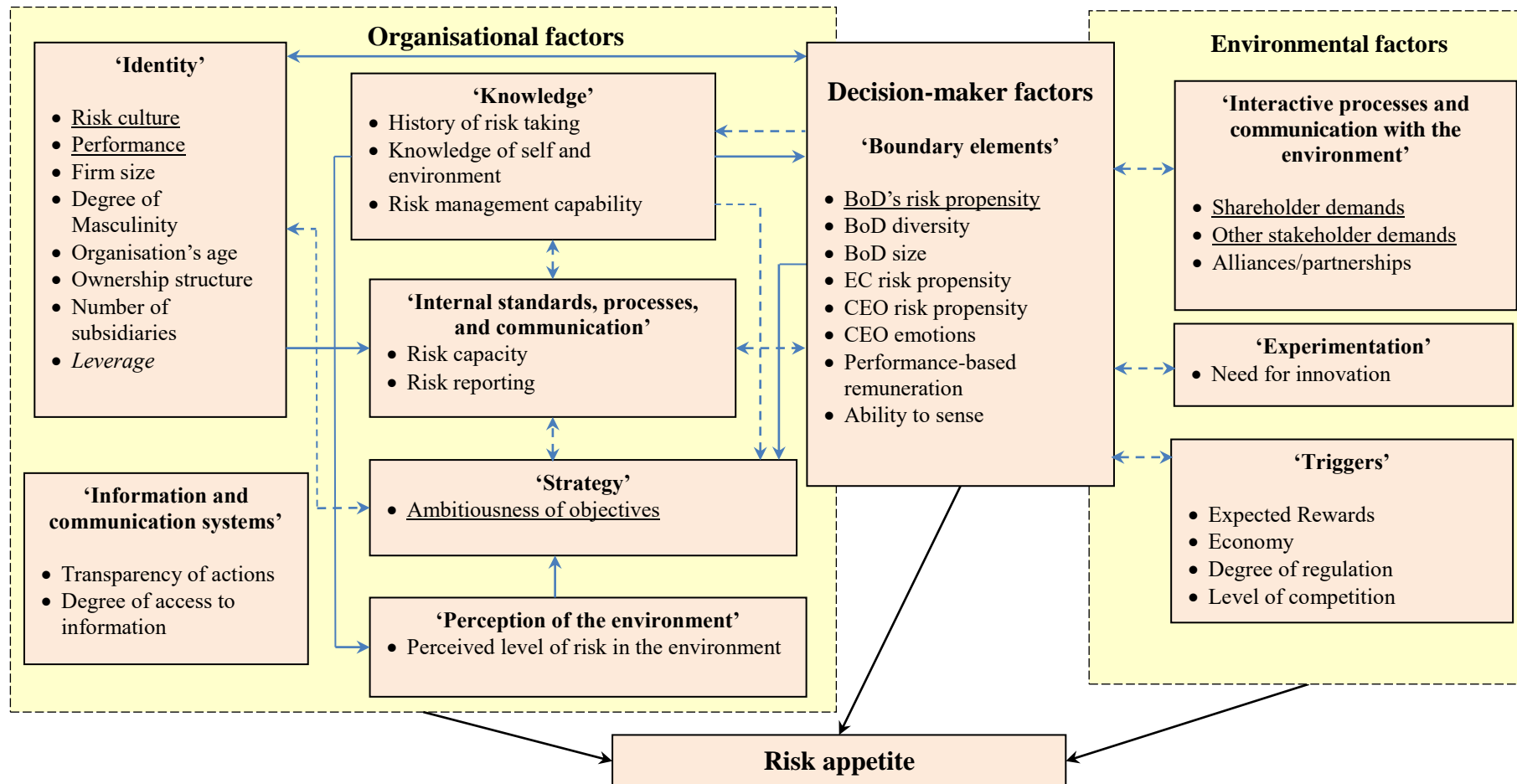
There are a few differences between the 'risk consultant' framework and the conceptual framework. One key difference is that the total number of factors in the risk consultant framework is considerably smaller than those in the conceptual framework. Many factors in the conceptual framework, such as 'organisation's age', 'ownership structure' and 'level of competition', are not identified by the risk consultants. In addition, the relationships between certain factors and the risk appetite appear different. For example, instead of a 'one-directional' positive relationship as suggested in the literature, an organisation's risk management capability appears to have a 'mixed' relationship with risk appetite. Furthermore, while the conceptual framework could not distinguish the relative importance of the factors, the risk consultant framework was able to highlight a number of factors that are considered as key in shaping the risk appetite (i.e. underlined factors in Figure 4.1, p. 116).

In addition to the above similarities and differences, this stage of the research has discovered new interrelationships between different factors. For example, an organisation's 'risk culture' and 'history of risk taking' may shape and be shaped by the BoD's and CEO's 'risk propensities'; the 'risk propensities' of the BoD and the CEO and the 'perceived level of risk in the external environment' may influence the 'ambitiousness of an

organisation's objectives'; and the 'leverage' of an organisation could affect the relationship between risk capacity and risk appetite.

Incorporating the above findings into the original conceptual framework (Figure 2.4, p. 74), a 'stage one' framework of factors that influence an organisation's risk appetite is developed (Figure 4.2, p. 132). The emerging factor, 'leverage', is grouped under the 'identity' component. Newly identified interrelationships between different factors are also presented by adding solid arrows between relevant components. This 'stage one' framework was then used to inform the design of the second stage of the primary research.

Figure 4.2 ‘Stage one’ framework of factors that shape an organisation’s risk appetite



Italic factors: Emerging factors

Underlined factors: Key factors that shape the risk appetite

(Dashed) arrows: (proposed) emerging relationships between living composition components that shape the risk appetite

4.2 ‘Stage two’ findings – the case study

4.2.1 Evaluating the case organisations’ risk appetite with financial analysts

This section presents the findings of the online questionnaire survey, conducted with the financial analysts of the case organisations. The purpose of the survey is to seek empirical support for the observation that the two case organisations display different risk appetites - one (organisation A) is more risk-averse and the other (organisation B) is more risk-seeking.

Fifteen out of thirty-five analysts evaluated their respective organisation’s risk appetite. In particular, nine out of twenty-six analysts completed the survey for organisation A, and six out of nine analysts completed the survey for organisation B. The respondents have a deep understanding of their respective organisation and are highly aware of the industry situation. As mentioned in the methodology chapter, these analysts are experienced financial analysts working for major investment banks and financial brokerage firms. They offer independent advice on whether an investor should begin or continue to invest in a company. Their knowledge of the case organisations derives from their daily scrutiny of the organisations as well as direct interactions with the CEO and other top decision makers in various occasions such as the annual and/or quarterly earnings-reporting conferences. As such, their evaluation of the case organisations’ risk appetite can be regarded as highly credible.

The credibility of the evaluation is also demonstrated by good response rates, 36% for organisation A and 67% for organisation B was achieved. If one considers the fact that those analysts who declined to participate are mostly constrained by their own organisation’s disclosure policy rather than their own will, these two response rates could be viewed as even better, as the

disclosure policy effectively reduces the potential survey population for both case organisations.

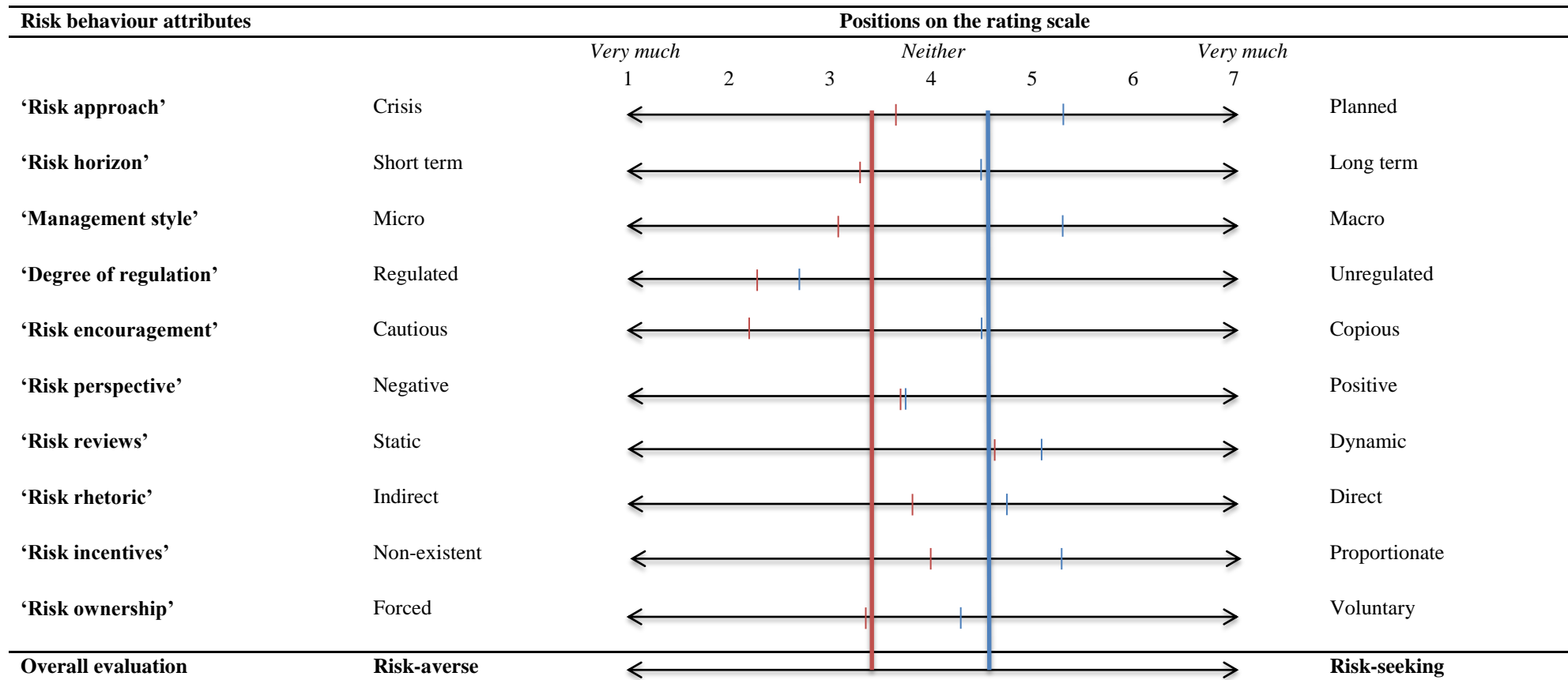
The risk appetite evaluation results for both case organisations are presented below in Table 4.1 (p. 135) and a graphical representation is presented in Figure 4.3 (p. 136). In particular, several differences between the two case organisations can be noted: 1) Organisation A's score for each of the ten risk behaviour attributes is consistently lower than organisation B. This shows that organisation A is more conservative overall compared with organisation B. 2) Most of organisation A's evaluation scores are within the 'risk-averse' domain (i.e. below '4'), and most of organisation B's evaluation scores are within the 'risk-seeking' domain (i.e. above '4'). This leads to the conclusion that, on an overall basis, organisation A is relatively risk-averse (average '3.444'), and organisation B is relatively risk-seeking (average '4.598'). However, the distance between organisation A and B in the overall average is rather small and both organisations are quite close to the risk neutral point (average '4'). This indicates that the risk appetites of both case organisations, while showing a distinct and clear preference, are not extreme. These findings confirm the study's case-selection observation that organisation A is slightly more risk-averse and organisation B is slightly more risk-seeking.

Nevertheless, there are certain attributes in each case organisation whose evaluation score appears inconsistent with its overall evaluation. For example, the attributes of 'risk reviews' (score = 4.67) and 'risk incentives' (score = 4.00) for organisation A are in the domains of risk-seeking and risk-neutral, respectively. Equally, the attributes of 'degree of regulation' (score = 2.83) and 'risk perspective' (score = 3.83) for organisation B are in the domain of risk-averse. Not only does this inconsistency underscore the multi-dimensional nature of risk appetite, it also implies that an overarching attempt to characterise an organisation as either risk-averse or risk-seeking might be inappropriate, as the organisation could display a certain level of willingness to take risk in a particular aspect that is largely inconsistent with its overall willingness to take risk.

Table 4.1 Risk appetite evaluation results for case organisations

Risk behaviour attributes	Organisation A average N=9	Organisation B average N=6
Risk approach	3.78	5.33
Risk horizon	3.33	4.50
Management style	3.11	5.33
Degree of regulation	2.33	2.83
Risk encouragement	2.22	4.50
Risk perspective	3.78	3.83
Risk reviews	4.67	5.17
Risk rhetoric	3.89	4.83
Risk incentives	4.00	5.33
Risk ownership	3.33	4.33
Overall average	3.444	4.598

Figure 4.3 Risk appetite evaluation results for case organisations



The 'red' line illustrates the overall risk appetite for organisation A; The 'blue' line illustrates the overall risk appetite for organisation B.

4.2.2 Exploring the factors that shape an organisation's risk appetite from corporate executives and risk managers

Building upon the previous findings, the case study seeks to identify and evaluate the factors that influence an organisation's risk appetite in real-life contexts. It begins with an exploration of the risk appetite conceptualisations held by the informants (section 4.2.2.1), followed by a presentation of factors that shape the case organisations' risk appetite (section 4.2.2.2). The interrelationships between different factors are also discussed (section 4.2.2.3).

4.2.2.1 Risk appetite conceptualisations from the perspective of corporate executives and risk managers

This section explores how informants of the case organisations conceptualise risk appetite in the context of their own organisation, and whether there are any similarities or differences among those conceptualisations. This understanding is important as it facilitates the comprehension of the informants' accounts of factors influencing their organisation's risk appetite.

In organisation A, there seems to be a shared understanding of risk appetite among all informants. The concept is considered as having a largely quantitative nature, representing the amount or level of risk that an organisation is willing to take in order to achieve its objectives. For example, informant P04A explained:

'Whether you're an organisation or an individual we all have risk appetites, and the fact that it's - the amount of risk that we're willing to take in order to achieve our goals or to achieve desired objectives or outcomes.' (P04A)

However, informant P02A contends that it is difficult for employees of the organisation to comprehend risk appetite, as the term 'risk' is rather abstract

and elusive. He suggests that perhaps it is better to replace ‘risk’ with ‘resource’, which is more tangible and easier to understand. He also argues that the purpose of risk taking should not only be about achieving strategic objectives, but also protecting the organisation’s assets, particularly the intangible assets such as the reputation. In this regard, risk appetite may be viewed as the amount of resources an organisation is willing to put at risk in order to achieve its objectives and protect its assets.

Despite this nuance, three informants (P01A; P03A; P07A) realise that their view of risk appetite may be problematic, as it assumes that all risks can be quantified with a single measure and that risk appetite is an aggregated number of all risks. Whilst risk quantification is important for measuring and monitoring risk levels, attempting to quantify all risks in a unified measure is inappropriate, and many risks seem to be unquantifiable. To rectify this problem, two informants (P03A; P07A) suggest that an organisation may need to adopt a granular view of risk appetite and consider it as comprising many risk tolerances. Compared to risk appetite, risk tolerance is a more widely accepted concept in risk management, referring to the risk level an organisation is willing to take with regard to a particular risk type. Risk tolerance may be expressed in either quantitative measures or qualitative statements. Normally, an organisation’s risk appetite at lower organisational levels tends to include quantifiable risk tolerance measures based on the organisation’s policies and standards, on which a numerical value can be allocated. An example of such risk tolerance measures can be ‘zero tolerance of fire or theft incidents’ (P07A). However, with regard to higher-level risks, particularly those at the strategic levels, risk tolerances tend to manifest themselves in more or exclusively qualitative statements, which are aimed at promoting desirable risk behaviour. An example of such qualitative statements could be, *‘we value our reputation and have no risk appetite for the conduct of activities which may potentially damage our reputation’* (P06B).

Whilst organisation A does not have a formal risk appetite statement or framework that is communicated to stakeholders, informants P01A and

P02A recognise that their organisation naturally has an inherent risk appetite, which is reflected in a number of key decision-making areas: policies and standards, delegation of authority, resource allocation, investment guidelines, corporate governance, and devising risk controls. For example, informant P01A argues that the way an organisation allocates resources may reflect its risk appetite. If an organisation allocates most resources to traditionally risk-seeking or risk-averse departments, it may indicate an overall risk-seeking or risk-averse appetite of the organisation.

Recognising the complex nature of the risk appetite concept and a lack of formal guidance, informant P05A suggests that organisations should not overly focus on developing a risk appetite statement or framework. He perceives risk appetite as similar to the ‘black hole’ in the universe, as both are invisible and difficult-to-measure, and both shape the ways in which their surroundings behave. He argues that it could be a waste of resources to directly measure the ‘black hole’; what is more meaningful is to understand how and why its surroundings behave in certain ways. Equally, attempting to develop a risk appetite framework may be seen as similar to measuring the ‘black hole’; perhaps what is more worthwhile is to examine how various aspects of the organisation behave in situations involving risk, which could in turn benefit the understanding of the risk appetite.

Compared with organisation A, there appears to be less diversity in the risk appetite conceptualisations in organisation B. In particular, the informants seem to understand risk appetite in two ways: one focuses on the amount or level of risk an organisation is prepared to take (P01B; P02B; P04B; P05B; P08B), which is similar to organisation A; the other concerns the degree of the overall ‘willingness’ or ‘boldness’ of an organisation in risk taking (P03B; P06B; P07B). The latter conceptualisation is reflected below:

‘I would put it in the context of a company’s willingness to accept uncertainty, and then make decisions against that. The greater the risk appetite, the more willing somebody is to make decisions in the absence of lots of information or facts. It becomes more of a gut thing than it does with empirical data that says, ‘this is what it

shows and this is what we want to do as a result of that information.’’(P03B)

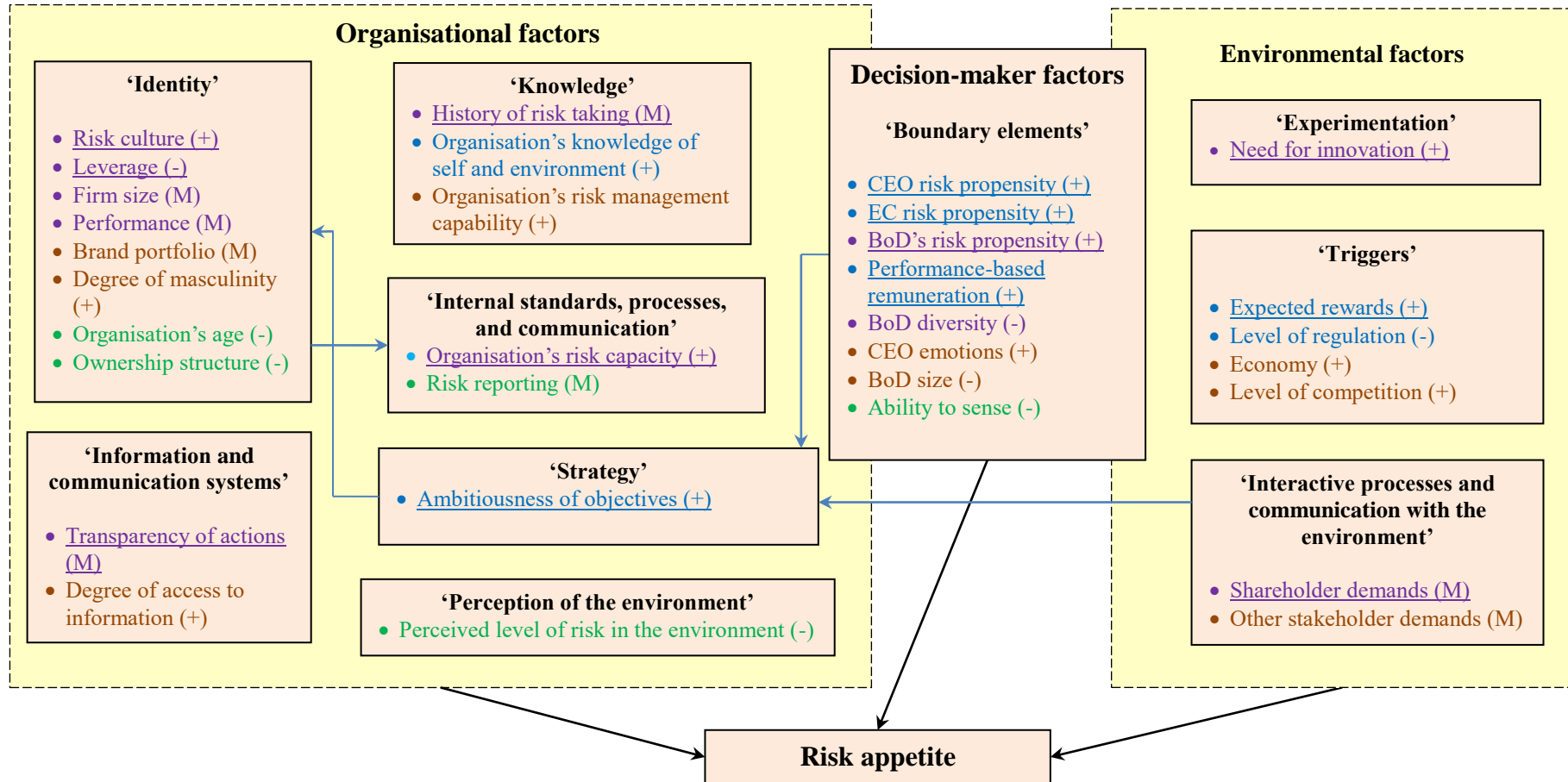
‘...the risk appetite - how bold are we with our steps and to say, ‘okay, we want to take a stand’ on certain issues or markets?’(P06B)

In the above examples, risk appetite is not a number; rather, it reflects a mental attitude of the organisation towards accepting uncertainties. This difference might partially explain why organisation A appears slightly more risk-averse than organisation B. Compared to determining the mental attitude towards risk taking, calculating a meaningful risk appetite number seems more challenging and time-consuming. Therefore, a certain amount of risk that is mentally acceptable for organisation B may not be numerically justifiable for organisation A. Perhaps, this mental conceptualisation of risk appetite can be ascribed to the specific job roles of the informants. Whilst those informants who view risk appetite as a number work exclusively in the Risk Management function of their respective organisation, informants who consider risk appetite as the willingness or boldness have significantly different responsibilities. For example, informant P03B is Head of the Procurement, informant P06B leads the Public Relations department, and informant P07B is Vice President of the organisation’s Legal department. Compared with colleagues in Risk Management, these three informants may have less responsibility in risk control for the entire organisation, thus engendering a more relaxed and affective view of risk appetite.

4.2.2.2 Factors that shape the case organisations’ risk appetite

The ‘stage one’ framework (Figure 4.2, p. 132) was used as an analytical lens to explore the factors that shape case organisations’ risk appetites. Overall, the findings (Figure 4.4, p. 141 and Figure 4.5, p. 142) seem to support the main components of the framework in both organisations, but disparities exist in how individual factors influence the risk appetite. The interrelationships between risk appetite factors also appear different from the stage one framework for both organisations.

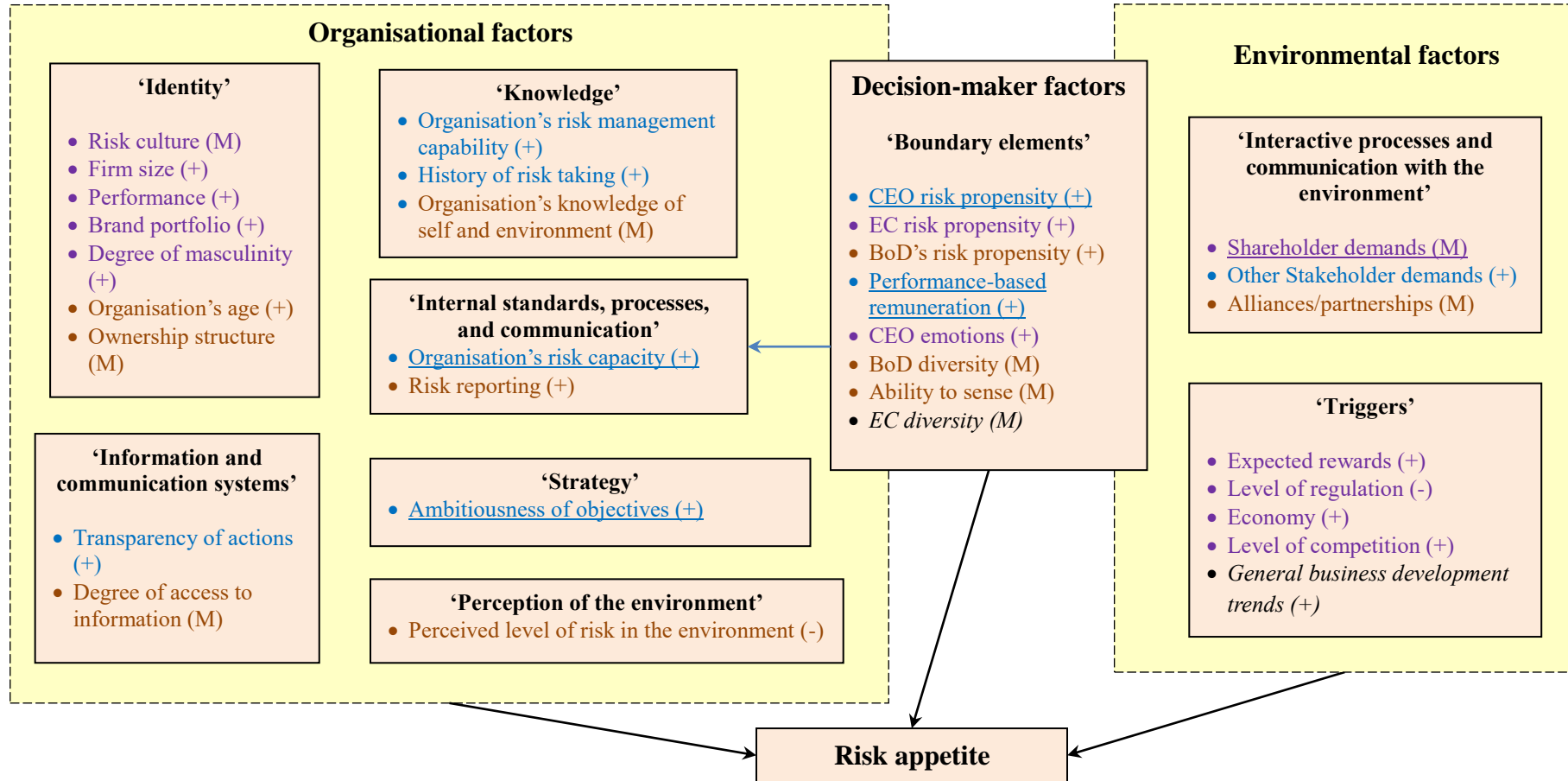
Figure 4.4 Factors influencing the risk appetite of organisation A



+: positive association with the risk appetite;
 -: negative association with the risk appetite;
 M: mixed (both positive and negative) association with the risk appetite; Underlined factors: Key factors;

Purple: Important disputed factors;
 Blue: Important undisputed factors;
 Brown: Less important disputed factors;
 Green: Less important undisputed factors

Figure 4.5 Factors influencing the risk appetite of organisation B



+/-: positive/negative association with the risk appetite;
M: mixed (both positive and negative) association with the risk appetite; Underlined factors: Key factors; *Italic factor*: Emerging factor

Purple: Important disputed factors;
Blue: Important undisputed factors;
Brown: Less important disputed factors;

Organisational factors - ‘Strategy’ factor

The ‘strategy’ component appears as a key category that influences both organisations’ risk appetite. This component comprises one shared factor: *ambitiousness of objectives*, which is considered as a key factor that positively drives an organisation’s risk appetite (Table 4.2, p. 143).

Table 4.2 ‘Strategy’ factor

Factors	Organisation A			Organisation B		
Ambitiousness of objectives	Key	Undisputed	Positive	Key	Undisputed	Positive

A notable consensus between the two organisations is that this factor is described as instrumental in shaping the risk appetite. It seems that objectives provide an organisation with an overall direction for development, which determines the required level of risk taking. According to informant P02A, objectives are akin to a general’s ‘orders’ in a battlefield: once they are given, they will ‘*orientate everything*’. Informant P06A explained how objectives have dictated the organisation’s operational focus:

“Last year one of the key objectives was ‘responsible business’, so everything was about showing that we’re a responsible company. So we had a lot of responsibility projects. We had charities. We had ‘....’, ‘....’, ‘....’, ‘....’, etc. This year is about ‘being number one’, in terms of our employees saying ‘this is the best company to work for’, our guests saying ‘this is the best company to stay with’, so everything we do now is focused on guest service, employee experience.”(P06A)

Interestingly, the level of influence that objectives have on risk appetite becomes much stronger when an organisation publicises them, especially in its annual reports or Annual General Meetings. Five informants (P02A; P05A; P06A; P01B; P06B) across the case organisations explicitly comment that their organisation will ‘*do everything*’ to achieve publicly stated objectives, regardless of how challenging the situation may be, even though that requires the organisation to take on a huge amount of extra risk (and

contribute additional resources to devise corresponding controls). If an organisation fails to achieve its publicly stated objectives, the share value is likely to decrease and the organisation's reputation may deteriorate.

Organisational factors - 'Knowledge' factors

The 'knowledge' component consists of three factors that relate to an organisation's general and specific knowledge about itself, its capability to manage risk, and its environment. These three factors are *history of risk taking*, *organisation's risk management capability*, and *knowledge of self and environment*. The case organisations seem very different with regard to the influence of these three factors on risk appetite (Table 4.3, p. 144).

Table 4.3 'Knowledge' factors

Factors	Organisation A			Organisation B		
History of risk taking	Key	Disputed	Mixed	Important	Undisputed	Positive
Organisation's risk management capability	Less important	Disputed	Positive	Important	Undisputed	Positive
Knowledge of self and environment	Important	Undisputed	Positive	Less important	Disputed	Mixed

The crucial role that an organisation's *history of risk taking* plays in shaping its risk appetite is unanimously recognised by both case organisations. This is because past risk-taking experience can form a powerful knowledge base to inform future risk decisions. However, the value of past experience seems a contentious topic in organisation A. While four informants (P01A; P02A; P03A; P05A) argue that past experience is key, as '*senior decision makers always make decisions based on their past experience*' (P05A), three others (P04A; P06A; P07A) posit that an organisation should be wary of over reliance on previous experience, because '*past successes or failures do not guarantee future outcomes*' (P07A). Informant P08A provides a highly cautious and conservative perspective, arguing that past experience only

increases an organisation's awareness of possible risk-taking outcomes, thus not necessarily influencing the risk appetite:

'Depending on what that experience was, be it good, bad or indifferent, you would be better informed or better equipped, but you might not necessarily want to increase your risk appetite nor decrease it. I think past experience gives you awareness and knowledge rather than necessarily wanting to do - you may not do anything about it.' (P08A)

Regarding the history of risk taking, another notable difference between the case organisations relates to the specific nature of its influence on risk appetite. Informants of organisation A argue that the history of risk taking could have either a positive or negative influence, depending on whether the outcome of past experience is positive or negative. Normally, positive experience boosts overall confidence and thus increases the organisation's willingness to take more risk, whereas negative experience leads the organisation to be more cautious and reduce its risk appetite. However, all informants of organisation B seem to believe that past experience is immensely valuable, and regardless of the outcome, an organisation could always learn from it. This learning would then increase the likelihood of future success, thus enabling an organisation to have a higher risk appetite.

An organisation's *risk management capability* appears to positively influence the risk appetite. As a multidimensional construct, risk management capability encompasses the overall awareness and understanding of risk at various organisational levels, and the specific skills and know-hows in managing risk. The dominant view is that the more capable an organisation is in managing risks, the more confident its decision makers will be, and the more likely they will decide to take on extra risk in order to maximise potential rewards. As informant P01A explained:

'The more [risk management] capability we have, the more propensity the company has to take risks, because it gives the decision makers comfort that the traditional risks are managed, surprises are minimal and that you could take more risks that you deliberately want to take in order to reap more benefits.' (P01A)

However, this positive influence may not always exist, as increased risk management capability also means a stronger ability in risk identification and analysis. As such, the organisation may highlight more risks to which it is exposed, thus rendering the decision makers to refrain from taking risks.

With regard to the importance of *risk management capability*, there seems a clear distinction between the case organisations, with organisation A believing it as ‘less important’ for risk appetite, and organisation B considering it as ‘important’. This distinction is further strengthened by the fact that two informants of organisation A (P02A; P04A) even perceived this factor as ‘unimportant’, whereas four others in organisation B (P02B; P05B; P06B; P07B) rated it as ‘important’. Although the data is not sufficient to explain this disparity, a possible reason might be that risk management capability, within organisation A, is seen as more of an ‘enabler’, rather than a ‘driver’ for risk taking. As informant P07A commented:

‘If you’ve got a good risk management system in the business, it would enable you to take some of those risks, but it is not the reason why you should take those risks.’ (P07A)

Interestingly, two informants (P01A; P05A) highlight a need to clarify the scope of risk management capability in risk appetite discussions, as confusion may arise as to whether it is the capability of the entire organisation or the risk management department. It is suggested that one should not consider risk management capability within the scope of the risk management department, because this department is only one of many functions in an organisation that has responsibilities in managing risks.

The last factor in the ‘knowledge’ component is the organisation’s *knowledge of self and environment*, which appears important for organisation A but less important for organisation B. Five informants of organisation A (P01A; P02A; P03A; P04A; P05A) believe that this factor is positively related with the risk appetite, because the better the organisation

knows itself (in terms of strengths and weaknesses) and its environment, the more confident it will be and the better control it will have towards taking risks. However, whilst partly agreeing with their counterparts in organisation A, four informants of organisation B (P01B; P04B; P05B; P07B) maintain that an increased knowledge of the environment, especially in emerging markets, could enable an organisation to identify more risks and thus reduces its risk appetite. Consequently, the decision-making process may be delayed and the organisation might *'lose out on signing important hotel development deals to their competitors'* (P07B).

Organisational factors - 'Internal standards, processes, and communication' factors

This component contains two factors: *organisation's risk capacity* and *risk reporting*. Data analysis suggests that case organisations appear to hold similar views on these two factors (Table 4.4, p. 147).

Table 4.4 'Internal standards, processes, and communication' factors

Factors	Organisation A			Organisation B		
Organisation's risk capacity	Key	Disputed	Positive	Key	Undisputed	Positive
Risk reporting	Less important	Undisputed	Mixed	Less important	Disputed	Positive

An organisation's risk capacity seems to play a key role in positively shaping the risk appetite. Four informants (P01A; P03A; P01B; P02B) across the case organisations argue that risk capacity enables and facilitates the organisation's risk taking, as it establishes a clear financial boundary for taking risks. The higher is the risk capacity, the more financial resources are available for risk taking. However, informant P07A contends that in organisation A the risk capacity hardly influences the risk appetite; even if it does, it is more likely to be a 'constraint' than an 'enabler', because the amount of financial resources the organisation committed to risk taking in the past were *'nowhere close to its risk capacity'*. Further, the positive influence of risk capacity on risk appetite might be dependent on whether the organisation is a 'saver' or a 'spender'. According to informant P02A,

increasing risk capacity would enhance the risk appetite if the organisation is a spender, but for a saver it would lead to a reduced risk appetite, because a saver is frightened of losing money:

'Some people live to their credit limit. Maybe I'm rare, I don't. I'm a saver. I pay off my credit card every month. If you're that type of person giving me more resource makes me even more risk averse, strangely. If you gave it to my daughter she'd go and spend it then her appetite would increase. So I think it depends on the personality type of the company.' (P02A)

Whilst increasing risk capacity generally provides an extra financial protection, it may also prompt an expectation from the stakeholders that the risk capacity should be adequately exploited. If the organisation fails to take risks at a level close to full capacity, the shareholders may demand a return of the excess capital. As informant P02A recalled:

'We've had billions of pounds cash sitting there and we've not been able to find ways of using that money. The shareholders have made us - or we have given that money back to the shareholders. Having too much cash in a FTSE company is not a good idea because all that happens is an aggressive shareholder turns up and takes you over and strips the company off its money.' (P02A)

Although returning excess capital in the form of dividends can certainly delight the shareholders, it could also result in a significant reduction in the organisation's overall cash reserve, which would impair the risk capacity and in turn the risk appetite. Thus, it may be difficult for the organisation to capitalise on emerging opportunities in the future. However, informant P05A argues that such a move (returning capital to shareholders) is justified, because it demonstrates that the organisation is committed to fulfilling one of its core purposes - driving shareholder value:

'We have a very clear purpose which is to drive shareholder value. It's their assets, not ours. They own the company, not us.' (P05A)

Compared with the risk capacity, the effect of *risk reporting* on risk appetite appears rather insignificant as both case organisations rated this factor as

‘less important’. While there is a difference between the two organisations with regard to the nature of risk reporting’s influence, this was not further explored during the interviews. However, possible reasons underpinning this difference are explored in the discussion chapter.

Organisational factors - ‘Identity’ factors

The ‘identity’ component is the largest category of organisational factors, comprising seven shared factors and one unique factor for organisation A (i.e. Leverage). Table 4.5 (p. 149) presents a summary of the influence of various ‘identity’ factors on risk appetite for case organisations.

Table 4.5 ‘Identity’ factors

Factors	Organisation A			Organisation B		
Risk culture	Key	Disputed	Positive	Important	Disputed	Mixed
Leverage	Key	Disputed	Negative	No influence		
Firm size	Important	Disputed	Mixed	Important	Disputed	Positive
Performance	Important	Disputed	Mixed	Important	Disputed	Positive
Brand portfolio	Less important	Disputed	Mixed	Important	Disputed	Positive
Masculinity	Less important	Disputed	Positive	Important	Disputed	Positive
Organisation’s age	Less important	Undisputed	Negative	Less important	Disputed	Positive
Ownership structure	Less important	Undisputed	Negative	Less important	Disputed	Mixed

Whilst the important role of *risk culture* for risk appetite is acknowledged between both case organisations, there seems to be a strong belief in organisation A that risk culture is a driving force that positively influences the risk appetite. Informant P01A argues that risk culture could shape an organisation’s mindset towards risk, helping its members to recognise the value of risk management, and take calculated risks to make optimal decisions. A risk culture with a high level of risk-informed decision making fosters strong risk awareness and voluntary risk ownership in an organisation, thus providing key decision makers with assurances that potential risks are recognised and managed, which tends to increase their confidence and leads to increased risk appetite. However, two informants in

organisation B (P03B; P07B) highlight a potential issue for an organisation with such a risk culture. They warn that a high level of risk-informed decision making may render organisational members to be overly sensitive to uncertainties and so become ineffective in filtering out irrelevant and insignificant information. As such, it is possible that an excessive amount of risk information could be collected for the decision makers, delaying the risk decision making and therefore losing on potentially rewarding opportunities. As informant P03B explained:

'I've experienced on many occasions where there is a desire to try to get as much information to make a decision as possible, and it takes forever for the decision to be made and you lose an opportunity, because you were slow to get to the market.' (P03B)

The differences between organisation A and B may be explained from their competitive positions in the hospitality industry. While organisation A is often regarded as one of the market leaders, the smaller size and less diverse geographical spread of organisation B render it a market follower. Although a strong risk culture could help organisation A to defend its position, in the context of organisation B it could impede timely and decisive decisions, resulting in lost opportunities.

Interestingly, informants P01A and P04A argue that a lack of risk awareness and consideration among top decision makers have hindered the organisation's efforts in building a strong risk culture. It seems that risk is not an essential decision-making criterion, and many past decisions were made in the absence of risk consideration, where the outcomes were unsatisfactory. As informant P04A argued:

'In the grand scheme of things, I am not convinced that our senior executive team is as risk aware as they probably should be. I still think we make a bunch of decisions based on our gut and on our business experience, rather than looking through a 'risk lens', where we could have made some much better decisions or put better controls.' (P04A)

The *leverage* of an organisation appears to have a very different influence on risk appetite in the two case organisations. For organisation A, leverage seems a key factor that negatively affects the risk appetite, because increasing debt will create an extra burden on the business, and there would be severe consequences if the repayment obligations could not be fulfilled. As borrowing more debt is already a risk-taking activity in itself, the organisation will not want to take any more risks which could threaten its ability to repay the debt.

Unlike organisation A, it appears that leverage is not a concern for the risk appetite of organisation B. The main reason appears to be related to the fact that the organisation has a very low level of debt. As informant P07B explained:

'We have very low investments [in assets]. We still have a number of leased hotels but that's minority. The strategy of us is 'asset-light' which basically means we don't take ownership investment in our projects. Given that we don't really have much debts and the way we operate through franchising and management agreements, it [the debt] doesn't have an impact on the way we do business.' (P07B)

However, two informants (P06B; P08B) of organisation B added that if their decision makers choose to take on more debt in the future, the organisation would probably behave in a more risk-averse manner, due to the increased pressure from repayment obligations. Despite this, informant P04B offers an interesting perspective that strongly contests this view. He argues that due to the organisation's nature, i.e. being a public limited company, individual members of the organisation will not be held liable for its debts, thus even if the organisation takes on a substantial amount of debt, there is very little for the key decision makers to lose, therefore leverage is not a factor to consider in risk taking decisions. The following quote captures this point:

'To me, the fact that the company have debt or it could be a lot of debt doesn't change the risk appetite at all. That is a limited company. If I'm an individual, a person who has finances, am I going to go to the casino and bet it all on 21? No, of course not.'

That would be foolish, but when it comes to companies, no, I don't see it as a factor.' (P04B)

The effect of *firm size* on risk appetite seems disputed for both organisations. While it is rated as 'important' for both organisations, a considerable number of informants find it difficult to comprehend the influence of this factor on risk appetite. For example, informant P04B commented:

'I don't think it changes for us. I'm trying to think, if we were double the size we are for now, would that change our strategy in terms of what we do and how we do it? I don't think so. I think we would stay the course; we would keep doing what we're doing. I don't know how it would actually change our risk appetite at this stage.' (P04B)

There is an important element towards the end of the above quote, which is 'at this stage'. Whilst the informants of organisation B consider the organisation to be in the 'growth' stage of the lifecycle, it is still relatively small in size and scale, and is trying to gain more market share through an accelerated expansion. The smaller size may limit the likelihood for the organisation to experience certain issues that only larger counterparts, such as organisation A, could encounter. For example, informant P07A explains that large organisations face greater challenges in staff compliance to policies and standards, which tends to decrease the risk appetite:

'If you're a small to medium company, you probably have the ability to monitor a lot more of your staff. We have 360,000 colleagues. We can't monitor them all the time and although you have standards and policies in place, it's impossible to make sure that everybody is doing everything against those policies. So things go wrong and that decreases your risk appetite. For example as the company size spans more global markets, you've got to consider the culture of those markets. So very much the USA, UK, very heavy on regulation and legislation. You go to some developing parts of the world the same ethical behaviour might not be there. So you don't want to take greater risks around those people.' (P07A)

While informant P07A makes a valid point, two of his colleagues (P06A; P08A) and another five counterparts in organisation B (P02B; P04B; P05B; P06B; P07B) seem to disagree. They believe that the larger is the size, the more experiences, knowledge and resources (e.g. financial and human) the

organisation tends to have. In this sense, a large organisation may have more capacity and capability to manage its risks, and therefore ought to have a higher risk appetite. This view seems to imply a too-big-to-fail mentality, suggesting that the informants may have grown complacent about their organisation's ability to thrive in the uncertain environment.

The important influence of an organisation's overall *performance* on risk appetite is widely acknowledged across both organisations. Performance is related to targets and there are two aspects: an organisation that is meeting the targets or on course to meeting the targets is considered as performing well, whereas one fails or is struggling to meet the targets is considered as under-performing. Both organisations seem to agree that underperformance negatively influences the risk appetite, i.e. an under-performing organisation tends to increase their risk taking in order to achieve their targets. As informant P05A explained:

'I think definitely underperforming leads to [increased risk appetite] - and in our environment there are certain parts of the business that are definitely underperforming, which is creating increased risk appetite to enter the new markets, to enter emerging economies in Africa and try to find new streams of revenue which can increase risk. The company is willing to take that risk because they need that revenue and growth.' (P05A)

Despite this consensus on the impact of underperformance on risk appetite, differences appear to exist regarding well-performing organisations. The major view in organisation A seems to be that a well-performing organisation tends to become more cautious and slightly reduce its risk appetite, because it wants to maintain the momentum and does not want to take unnecessary risks that might jeopardise the performance. However, informant P07A argues that this is unlikely as he cannot recall any case where the organisation was asked to 'scale back a little bit' on risk taking when it was performing well. Conversely, the organisation was almost always required to further 'stretch' and see if the performance could be improved with more risk taking. This view is echoed in organisation B. According to informant P03B, the organisation was always pushed to take

more risks when it performed well, because the BoD and the shareholders prefer a steadily improved performance to a sustained performance. This mindset reflects the comment of informant P02A, who believe that human ‘greed’ contributes largely to an organisation’s risk-seeking behaviour.

The number and geographical diversity of the *brand portfolio* could be an important factor that positively influences an organisation’s risk appetite. Although it is perceived as overall ‘less important’ for organisation A (as only three informants, i.e. P02A, P06A, P07A, believe this factor could have some influence), it is considered ‘important’ for organisation B. According to informant P06B, a multi-brand portfolio that operates in diverse geographical markets could allow the organisation to take more risks, as it provides a flexible means to effectively mitigate the organisation’s risk exposure according to different circumstances. For example, depending on different demand conditions, the organisation could choose to take more risks for a particular brand at a particular location, and at the same time reduce the risk exposure for another brand at a different location.

The influence of an organisation’s *degree of masculinity* on its risk appetite seems disputed for both organisations. Whilst half of all informants reject the effect, the others argue for a positive relationship with the risk appetite. This positive association, however, appears ‘less important’ for organisation A but ‘important’ for organisation B. Unfortunately, the data could not explain this difference.

The two remaining ‘identity’ factors, *organisation’s age* and *ownership structure*, both appear insignificant for the case organisations. Therefore, no efforts are made to explain the underlying reasons.

Organisational factors - ‘Information and communication systems’ factors

This component consists of two factors, namely *transparency of actions* and *degree of access to information* (Table 4.6, p. 155).

Table 4.6 'Information and communication systems' factors

Factors	Organisation A			Organisation B		
Transparency of actions	Key	Disputed	Mixed	Important	Undisputed	Positive
Degree of access to information	Less important	Disputed	Positive	Less important	Disputed	Mixed

Transparency of actions seems to be a highly influential factor of risk appetite for both organisations. While the dominant view in organisation B is that transparency positively affects the risk appetite, there are mixed views in organisation A. One is that transparency of actions facilitates the flow of information and accurate recording of various activities being undertaken by the organisation, thus providing the decision makers with a clear picture of the organisation's risk taking situation. Consequently, the decision makers tend to be more confident that the organisation's risks are properly covered and managed, and are likely to increase the risk appetite. As informant P01A illustrated:

'If you have good transparency about all of the actions, clarity that inherent risks to businesses are well mitigated, that all risk taking actions are known and documented, then you'll know how much more you want or could afford to take. You wouldn't be as worried about taking risks closer to the line or fear that someone else has already crossed the line that you don't know about.' (P01A)

Another view in organisation A is that transparency could have a negative influence on risk appetite (P04A; P05A). It seems that increased transparency provides stakeholders with more opportunities to express their comments regarding the organisation's decisions. As such, decision makers may hear different views and thus it may become difficult to reach an agreement in risk-taking decisions, which tends to reduce the risk appetite.

Furthermore, informant P04A cautions that the organisation may not be as transparent as it should be with regard to making risk-taking decisions. He claims that despite his seniority in the organisation, he and his colleagues are sometimes excluded from the decision-making processes for important

projects, and the outcomes of those decisions, which are made by a small group of senior leaders, are not always satisfying. As he noted:

'I head up the [company division]. I can tell you for a fact that I was not involved [in the project] whatsoever. There was only one individual here who was involved. All he was asked to do was to visit a couple of hotels. He didn't talk to their team. He didn't even tell me what he was asked to do. I knew there was something going on. I specifically asked a question of our regional CEO and my boss if there's something I need to know or be involved with. They said, 'no'. I said, okay.' (P04A)

Degree of access to information is found to affect the risk appetite for both organisations, but to a relatively low level. While this factor seems to positively influence the risk appetite of organisation A, its influence for organisation B appears rather mixed. In particular, although informants (P01B; P02B; P04B; P06B) believe that a higher degree of information access could allow the key decision makers to make informed decisions based on quality and timely data, others (P03B; P07B) argue that enhanced information access may provide the decision-makers even more risk information, thus making the decision making difficult and time-consuming and possibly leading to lost opportunities.

Organisational factors - 'Perception of the environment' factor

This component includes one factor, namely 'perceived level of risk in the environment' (Table 4.7, p. 156).

Table 4.7 'Perception of the environment' factor

Factors	Organisation A			Organisation B		
Perceived level of risk in the external environment	Less important	Undisputed	Negative	Less important	Undisputed	Negative

The two organisations are largely similar on this factor, suggesting that it is a rather insignificant factor that could negatively influence the risk appetite.

Since the importance of this factor is low for both organisations, no efforts are made to explain the underlying reasons.

Environmental factors - 'Triggers' factors

The 'triggers' component is the largest category of 'Environmental' factors, encompassing four shared factors and one specific factor for organisation B. This component also seems to be one of the most important for organisation B, as all of its factors are rated as 'important'. By contrast, this component appears less critical for organisation A (Table 4.8, p. 157).

Table 4.8 'Triggers' factors

Factors	Organisation A			Organisation B		
Expected rewards	Key	Undisputed	Positive	Important	Disputed	Positive
Level of regulation	Important	Undisputed	Negative	Important	Disputed	Negative
Economy	Less important	Disputed	Positive	Important	Disputed	Positive
Level of competition	Less important	Disputed	Positive	Important	Disputed	Positive
General business development trends	No influence			Important	Emerging	Positive

For both organisations, *expected rewards* seem to be a very important factor that positively drives an organisation's risk appetite. The reason could be that it is perceived as the expected return on investment, which helps to ensure the organisation's financial viability. As informant P06A explained:

'Financial return is a huge one for us, because it pays for all of us and it gives back money to the shareholders, so that keeps us working. But whatever our strategy is, it all has to come back to 'are we making money?', because if we're not we can't expand, we can't have staff, we can't do all these great charity work that we do.'
(P06A)

Another informant (P07A) suggests that the expected rewards are a critical factor because the process of seeking the rewards is often associated with a large commitment of considerable financial resources, thus it becomes even more important for the organisation to secure the rewards.

There is a consensus between the case organisations that the *level of regulation* is a critical factor that often exerts a negative influence on risk appetite, because regulations are believed to prevent organisations from unlawful and improper behaviour. Five informants (P01A; P03A; P04A; P05A; P07A) of organisation A argue that regulations have a strong influence on risk appetite, as a compliance failure can cause significant damage to share price and more importantly to the reputation. This is something the organisation is not prepared to accept. For example,

'Our risk appetite for regulatory compliance is zero. We don't want any investigations; we don't want any acts of regulatory breach; we're just not prepared to accept it.' (P07A)

Another informant (P03A) provides an example showing how a recent regulation has affected the organisation's willingness to take risk:

'A few years ago the [...] government published the '[...]', so all [...] companies, regardless where they operate, must comply with the law. That has become very important for us. If we don't comply our reputation will be seriously damaged and that's unacceptable. So the introduction of this regulation had significantly limited our risk appetite in some areas...' (P03A)

This particular regulation mentioned by P03A, however, is not mentioned by any informants of organisation B. Despite the majority of them rating the influence of regulation as 'important', two informants (P02B; P07B) believe that in the context of organisation B regulation does not affect its risk appetite. They claim that although there are certain safety and security standards and various local legislations, the hotel industry is a relatively less-regulated industry, and drawing on their experiences they have not seen any risk-taking decisions of the organisation being influenced by regulatory considerations.

Moreover, the condition of the *economy* seems to be an insignificant for organisation A, but appears highly important for organisation B. Economy is perceived as having two dimensions that positively shape the risk appetite:

the general global economic condition, and the specific economic condition of a particular market. Two informants (P03B; P06B) particularly highlight the influence of global economy on risk appetite by pointing out that the organisation's risk appetite was very low in tough economic climate such as the aftermath of 2008 global financial crisis. However, informant P06B further argues that the financial crisis is an extreme case and the organisation's risk appetite is to a larger extent influenced by the specific economic conditions of its particular markets. As she commented:

'It depends more on where the economy in the markets is going, and because we are spread out over 70 plus countries, our risk appetite in one market may be very little compared to the others.' (P06B)

In addition, informant P06B added that organisation B has been tracking and expanding in emerging markets rather than mature markets. Despite these markets being considered 'riskier' due to issues such as political instability and poor infrastructure, their economic outlook in the long term seem more favourable than mature markets. It is this positive economic outlook that has made the organisation to expand and build up a market-leading presence in those emerging markets.

In organisation A, the *level of competition* in the industry seems to be a less important factor. Although informants did not explicitly state the underlying reasons, it could be linked to the fact that the organisation is a market leader and has generally outperformed other competitors. As such, the pressure of competition might not be strong enough to propel an increased risk taking.

On the contrary, competition appears to be an important factor that drives the risk appetite of organisation B. Informants P04B, P06B and P07B posit that competition is one of the key driving forces of the organisation's risk behaviour. For example, informant P06B, who has worked in the organisation for 15 years, strongly believes that the ever-increasing industry competition has propelled the organisation into a constant search of new markets and new ways of operation, as otherwise the organisation could have fallen behind:

'We tend to take more risk of being more creative and more nimble and quicker than competition, which means not all of the campaigns are as successful as we expect them to be, but we do them anyway because there is so much competition out there and we want to be ahead of the game. There are just so many other players who were more innovative and faster than us.' (P06B)

However, this thinking is challenged by another informant (P08B), who contends that the competition has not been an important consideration for risk appetite in the recent years. He argues that the organisation has realised that there are internal problems that need to be addressed first, i.e. to make the business more profitable, before focusing on competing with other industry players. Perhaps this is because the organisation has recognised that there is a significant 'gap' in market position between itself and other players and the increase of risk taking without addressing internal problems cannot help close the gap.

There is an emerging factor for organisation B that has been highly influential for the organisation's risk appetite over the last decade. The factor is named as *general business development trends*, which includes businesses of most other industries rather than the hotel industry only. Informant P01B notes that the organisation's expansion strategy over the past decade has largely followed the general business development trends. For example, the organisation decided to focus the expansion in emerging countries as it noticed a shift from mature markets to emerging markets in many industries. He believes that this change of focus has significantly increased the organisation's risk appetite as the emerging countries presented greater risks in various aspects, but it was also highly rewarding, because the organisation was faster than most competitors in entering those emerging markets and thus managed to build a considerable presence.

Environmental factors - 'Interactive processes and communication with the environment' factors

This component consists of two shared factors and one specific factor to organisation B. According to Table 4.9 (p. 161), the two case organisations are similar in the influence of shareholder demands, but different in how other factors influence the risk appetite.

Table 4.9 'Interactive processes and communication with the environment' factors

Factors	Organisation A			Organisation B		
Shareholder demands	Key	Disputed	Mixed	Key	Disputed	Mixed
Other stakeholder demands	Less important	Disputed	Mixed	Important	Undisputed	Positive
Alliances/Partnerships	No influence			Less important	Disputed	Mixed

There is a consensus between case organisations that *shareholder demands* play a key role in shaping an organisation's risk appetite. This might be attributed to the fact that both organisations are publicly listed companies and thus delivering shareholder returns is one of their key objectives. In fact, three informants of organisation A (P02A; P05A; P06A) explicitly state that the organisation is operating for its shareholders. For example, informant P06A explained:

'Even if we have a slow year our first returns go to the shareholders to keep them happy. They're priority one, and we need them happy. We're a PLC company, so they own us. You want them happy first; that needs to be the first thing to get out of the way and then we can handle everything else. So whatever financial returns we get they go first.' (P06A)

The significance of shareholders means that their demands are given priority for consideration in decision-making processes. While the dominant view is that the shareholders would push an organisation to engage in more risk-taking activities for an increased return, informant P05A contends that shareholders may also demand the organisation to be more prudent and risk-

averse. For instance, he suggests that shareholders are more likely to demand a lower risk appetite if the organisation has recently suffered a reputational damage. In this sense, the nature of shareholder influence on risk appetite is dependent on the nature of the shareholder requirement.

However, informant P06B adds that shareholders' demand for more return on investment may sometimes provoke risk-averse behaviour in organisation B. Other than increasing risk-taking activities to drive profits, the organisation is more likely to halt its risk-seeking projects and adopt a conservative approach of reducing operational costs. As she explained:

'If our shareholders push us to be more profitable, we will probably have to cut down on operations cost, which means that we will take less risk. We will control every penny. We will probably get rid of some of the human resources. We will drive the profitability through cutting cost. So we will retract rather than push forward. From an operations perspective, we will hold off all the innovative ideas and just drive business to existing clients, which is not really taking risks.'
(P06B)

Although most informants across both organisations recognise the key role of shareholder demands on risk appetite, three informants in organisation B (P01B; P03B; P07B) point out that although the organisation had previously listened to the demands of their shareholders, the influence on risk appetite seemed insignificant as the decisions were unchanged. The reason might be traced from informant P03B, who states that an organisation's decision on risk appetite is ultimately made by its BoD rather than shareholders, thus their demands *'might not have any influence at all'*.

In addition to shareholder demands, the *demands of other stakeholders* of an organisation (e.g. owners, guests, employees, etc.) is argued to influence an organisation's risk appetite. While this factor is considered 'less important' for organisation A, it appears to have much more influence for organisation B. Many informants of organisation A (e.g. P01A; P05A; P07A) assert that the organisation's risk decision making is the result of an internal analysis of the external environment, hence the views of the stakeholders, despite

being heard and considered, do not affect the risk appetite. However, for organisation B, such demands from the stakeholders appear to play a bigger role. For example, informants (P03B; P04B) imply that the organisation values the requirements of the hotel owners and always tries to meet their demands. As the organisation is growing via the 'asset-light' approach, securing and maintaining deals with as many hotel owners as possible is of paramount importance for the organisation to grow its market share and compete with other rivals.

Regarding the way other stakeholders' demand would influence risk appetite, informants of both case organisations suggested a mixed view: while stakeholders such as hotel owners and guests would typically push the organisation to take more risks, others stakeholders such as government, NGOs, and regulators tend to decrease the organisation's risk appetite. As informant P07A argued:

'So you look across public, you look across regulators, you look across governance. They tend to tone down your risk appetite a little bit. They tend to say something, then you need to comply. So that's kind of restricting you from doing... Or in a society you want their licence to operate in the country. You wouldn't take huge risk in developing a hotel and then employing slave labour, child labour and slave labour, just to get ahead in that market. They would put too much pressure on you.' (P07A)

The remaining factor, *Alliances/Partnerships*, is found to have no influence on organisation A and 'less important' for organisation B, therefore it was not explored further in the interviews.

Environmental factors - 'Experimentation' factor

The 'experimentation' component comprises only one factor, need for innovation, which is unique to organisation A (Table 4.10, p. 164).

Table 4.10 'Experimentation' factor

Factors	Organisation A			Organisation B
Need for innovation	Key	Disputed	Positive	No influence

The *need for innovation* seems a key factor that positively drives the risk appetite of organisation A. However, it appears to have no influence on the risk appetite of organisation B. Five informants (P01A; P02A; P03A; P07A; P08A) consider innovation as a necessary means for the organisation to create sustained competitive advantages and to maintain its leading position in the hotel industry. Informant P02A explains that as the industry becomes increasingly competitive, the need for the organisation to continually innovate its products and services has also become greater. This need for innovation then drives the organisation to undertake increasing R&D activities, which require the support from a stronger risk appetite. Thus, the growing need for innovation increases the organisation's risk appetite. Moreover, informant P02A suggests that the need for innovation may only push risk taking in specific business areas, and in certain areas where innovation is not necessary the influence on risk appetite is minimal. This is reflected in the following quote:

'...[Innovation] is by itself risky but if you don't do it that's even riskier. So you've got to innovate. It absolutely drives your appetite...for instance we want to innovate. Where we want to innovate is in the guests' experience driven by technology. So we are spending a huge amount of money at very high-risk appetite on technology. Do I want to have any risk appetite in my day-to-day relationship with guests? No. I've got no appetite for risk. But when I'm dealing with my IT systems I need to have a very high risk appetite, I've got to do it. If I don't do it I'm not going to be here in five, ten years' time.' (P02A)

Decision-maker factors - 'Boundary elements' factors

The 'boundary elements' component is a special category that overlaps with the 'organisational factors' and 'environmental factors'. Factors in this category are predominantly related to the key decision-makers of an

organisation, hence the name ‘decision-maker’ factors. Notably, this category includes eight shared factors and two individual factors that are each specific to an organisation. According to Table 4.11 (p. 165), there are four key factors for organisation A, which seem to make this component the most important among others.

Table 4.11 ‘Boundary elements’ factors

Factors	Organisation A			Organisation B		
CEO risk propensity	Key	Undisputed	Positive	Key	Undisputed	Positive
Performance-based Remuneration	Key	Undisputed	Positive	Key	Undisputed	Positive
EC risk propensity	Key	Undisputed	Positive	Important	Disputed	Positive
BoD risk propensity	Key	Disputed	Positive	Less important	Disputed	Positive
BoD diversity	Important	Disputed	Negative	Less important	Disputed	Mixed
CEO emotions	Less important	Disputed	Positive	Important	Disputed	Positive
BoD size	Less important	Disputed	Negative	No influence		
Ability to sense	Less important	Undisputed	Negative	Less important	Disputed	Mixed
EC diversity	No influence			Important	Emerging	Mixed

The risk propensities of an organisation’s key decision makers, which include the BoD, the CEO and the EC, are found to be a key set of factors that positively drive an organisation’s risk appetite. This seems particularly likely for organisation A. For example, informant P02A explains the crucial role of the BoD’s and the CEO’s risk propensity in influencing the organisation’s willingness to take risk:

‘If the BoD and the CEO are very risk averse then we are not going to take any risk, and nobody else will. People catch what you’ve got as a leader. If the BoD and the CEO, are sending out messages and demonstrating that you’re really up for taking risk, then yeah, absolutely the company will take risk.’ (P02A)

In addition, several informants in organisation A note that the organisation’s risk appetite is in fact the sole reflection of the BoD’s risk propensity, because the BoD is the ultimate decision-making body on the organisation’s

risk taking. For instance, informant P01A commented: *'BoD's propensity to take risk – that answers the whole question; that is the whole risk appetite'*.

However, this belief is challenged by three informants (P05A; P07A; P08A) in organisation A, who argue that the organisation's risk appetite is largely the reflection of the CEO's and the EC's risk propensity, to which the BoD only provides a balance. According to informant P07A, this is because the CEO and the EC are those who run the organisation on a daily basis, whereas the BoD's role is to oversee that operation. With regard to making risk-taking decisions, it is the CEO (on behalf of the EC) who makes recommendations to the BoD. Informant P05A adds that despite that the BoD has the 'final say' on the CEO's recommendations, based on his experiences the BoD never questions any proposal made by the CEO, even if *'the BoD might not think it was a good one'*.

There are two potential reasons to explain the reluctance of the BoD in challenging the CEO. According to informant P05A, the BoD has a clearly defined role, which is overseeing rather than running the organisation. *'If they stop something the CEO wants to do, almost by definition, they are running the company'*, explained informant P05A. Another reason is that the CEO and the EC are closer to the organisation's daily operation than the BoD, thus having greater depths of knowledge and information about the organisation and the external environment. The following accounts of informants P05A and P06B illustrated this point:

'If you take an Executive Committee member who is responsible for our global sales and marketing function, who has a team of 200 people who report to him, he has intimate knowledge of the business, the sales strategy, the marketing strategy, what's going to work, what's not going to work, and all the numbers in a detailed granular fashion. He knows what's happening. But that gets summarised into a very small piece of information for the BoD to receive. So [the BoD] are very aware that they do not have the depth of knowledge of the company and that puts them in a position far less inclined to really say, "No, that is not the right strategy".' (P05A)

'Our CEO is very much into the day to day operations of the business. He understands if he makes this step, what the consequences on profitability, people, and the long-term vision of the company would be. The BoD may not have that insight.' (P06B)

It is worthwhile to note that compared with organisation A where the CEO and two other EC members also sit on the BoD, none of organisation B's EC members sit on the BoD, not even the CEO. This might explain the 'less important' view of BoD's risk propensity for organisation B. Three informants (P01B; P02B; P08B) of organisation B even indicate that their BoD seems like an 'advisor' to the CEO and EC. Due to the lack of closeness to the operations, the BoD has been overly conservative in taking risk decisions, which reduces organisation B's risk appetite. As informant P01B noted:

'Right now the BoD is not completely up to speed on how we take our risks; and therefore they are providing some push back, to say 'are we really sure?', 'do we really know what we're doing?' There's a bit of fear in there and that has decreased our risk appetite. We want to have ambitious plans but we are being held on a pretty tight leash by the BoD...' (P01B)

Regarding organisation A, having a mixed BoD has created extra challenges in risk decision making due to internal conflicts. Two informants (P02A; P05A) describe the BoD's risk decision making as '*a game of two halves*'. One half includes executive directors who are usually risk-seeking, and the other half contains non-executive directors who are usually risk-averse. As such, there is always an on-going battle of risk propensities within a mixed BoD. The winner of the battle is more likely to be the more powerful party, and the overall risk propensity of the BoD may concur with this winner.

Performance-based remuneration, i.e. the bonuses that members of the EC receive for achieving short-term performance targets, seems to be a key factor that positively drives the risk appetite of both organisations. It is widely recognised that as people are naturally drawn to rewards, which not necessarily refer to money, but also praise and recognition, thus the offering of such rewards would almost certainly increase the risk-taking activities in

an organisation. *'If you are incentivising risk taking, then people are ready to take more risk. It's just human nature'*, stated informant P08B. It appears that both organisations remunerate decision-makers for short-term performance in the area of business development. In particular, remuneration is offered for achieving a short-term growth target, i.e. the signings of a certain number of hotel deals within a certain period. Three informants (P02A; P07B; P08B) criticise this type of remuneration mechanism, claiming that it has resulted in careless risk-taking decisions and caused trouble for other departments in the organisation. As informant P07B argued:

'I am in the legal department. I know 'developers' [business development team] get rewarded for the projects they sign. There is a bonus mechanism which means they're more likely to take risk...I've seen some contracts that were signed, where after the facts we all questioned, 'Why did we enter that market?' and I think if there was no bonus for the developers, probably we wouldn't have done certain things.' (P07B)

According to informant P05A, the danger of having such a short-sighted remuneration mechanism in place is that it may create a false expectation among people or even foster an inappropriate culture within the organisation, which makes everyone align risk-taking decisions to short-term performance, rather than focusing on the organisation's long-term strategy and sustainability. He argued:

'It's also about the expectation that you set in people. So [it might be] 'hit this target no matter what you do, I don't care what you do, just hit this target'. If you don't give any other counter-targets to it in terms of the risk that's being taken, you're sending a message that this is the way the company wants you to behave... More importantly there is a culture created because of those [remuneration] structures. You can create a culture and environment that people think, 'this is how the company is going to remunerate me, so therefore this is what the company wants me to do'. (P05A)

In order to address the potential problem, three informants (P02A; P07B; P08B) recommend that an organisation should perhaps reward on 'quality strategic growth', which means that offering bonuses to signings that are in

the organisation's strategic markets and with the preferred brands, and the company-owner relationships are still of good quality after a number of years.

The *emotion of the CEO* could be an important factor that positively influences the risk appetite. However, it appears 'less important' for organisation A. Two informants (P02A; P03A) argue that this is because risk-taking decisions are the result of a collective thinking of the BoD members rather than an individual responsibility, thus the influence of CEO on the final decisions is minimal. Also, informant P01A argues that the CEO is highly mature and professional, so he understands well enough that decisions cannot be made emotionally. The organisation also has a comprehensive decision-making mechanism that is designed to minimise emotional influence on key decisions.

However, CEO emotions appear quite influential for organisation B. Three informants (P01B; P03B; P06B) particularly note that their current and previous CEOs are all highly emotional individuals, whose style have had a positive influence on the organisation's risk appetite. For example, informant P06B commented:

'The CEO's mood, his temper, and his attitude have a big influence on the strategies we take. It always has. Every CEO that we've had in the past has had the same impact. He is the big boss and it really depends on his leadership style and his mood, in terms of what risks do we take and what we don't take.' (P06B)

BoD diversity seems an important factor that is negatively associated with the risk appetite for organisation A. While BoD diversity is necessary to tackle groupthink and moderate extreme decisions (P02A; P03A; P04A; P07A), because diversity offers a wide range of different experiences and perspectives, it also means that consensus on risk decisions is more difficult to achieve, which could delay important decision making and reduce the organisation's willingness to take risks. Nevertheless, informant P07A argues that the influence of BoD diversity on risk appetite could be

dependent upon the overall outcome of BoD members' previous risk-taking experience. As he argued:

'...it depends on the experiences they have to bring in. If you had on your board someone from Toyota, someone from Tesco, someone from a major bank, I would argue that the risk appetite would decrease because of the [negative] experiences that they've been through. If we've got people from the likes of Google, BMW, Apple [on our board], their experiences are how they are doing really well, they'd probably encourage the company to take more risk.' (P07A)

By contrast, BoD diversity is considered 'less important' for organisation B. Although the findings could not reveal the reason, one could speculate that it is related to its BoD being less important in the organisation's decision-making structure. Nevertheless, the value of diversity is recognised, as two informants (P01B; P06B) suggest *EC diversity* as a highly influential factor. They argue that a successful organisation needs a balanced, rather than one-sided, leadership in order to make informed and calculated decisions on risk taking. Having a certain level of diversity in the EC can increase the organisation's versatility and provide a balance to the risk appetite. The following quote from informant P01B demonstrates this point:

'If you look at our management team it's pretty White Western and male. Right now it's almost exclusively that. It increased our risk appetite quite a bit. We're the Western industrialised world; we have a tradition of colonising places. I think some of that subconsciously still drives it. When there's more adversity out in the emerging markets, it might decrease [our risk appetite] a little bit. We think, 'oh, is there really opportunities there'. However, the more diverse we were, both culturally and otherwise, we would have more people that were not necessarily outside their comfort zone if they were in Central Africa, whereas White Western people are definitely outside their comfort zone if they step off a bus in the middle of Nairobi. Having more diversity might balance out the risk appetite a little bit better and protect us from swinging back and forth.' (P01B)

The influences of other factors such as 'BoD size' and 'Ability to sense' on risk appetite are found insignificant for both organisations. Therefore, they are excluded from this discussion.

4.2.2.3 Interrelationships of risk appetite factors

Whilst showing varying perspectives regarding the importance and influence of multifarious factors on risk appetite, the case organisations also seem to exhibit different levels of sophistication in relation to the interrelationships among different factors. The blue arrow lines in Figure 4.4 (p. 141) and Figure 4.5 (p. 142) represent these interrelationships.

Regarding organisation A, the ambitiousness of objectives appears to play a central role, relating to four other factors in the framework, including BoD risk propensity, shareholder demands, other stakeholder demands and performance. For example, similar to the view of risk consultants, the level of ambitiousness of objectives is positively influenced by the BoD risk propensity, because the BoD has the '*ultimate responsibility in setting the company's objectives*' (P01A). In other words, the higher is the BoD risk propensity, the more ambitious are the objectives, and thus the higher is the risk appetite.

The ambitiousness of an organisation's objectives is also affected by the demands of the organisation's shareholders and other key stakeholders. While there are a variety of stakeholder groups, informant P08A particularly points out that the requirements of the activist shareholder and other key stakeholders such as regulators and employees must be considered in setting the organisation's objectives. Depending on their specific demands, the ambitiousness of the objectives need to be set at an appropriate level to reflect the stakeholders' desired balance between risk and rewards.

Furthermore, it is suggested that an organisation's objectives, once determined, would be translated into measurable performance targets for the organisation to benchmark against (P02A). It is expected that more ambitious objectives are likely to lead to higher targets, which increases the level of difficulty for the organisation to achieve the performance targets. Consequently, the organisation may need to take more risks in order to achieve the targets.

Additionally, leverage is argued to positively influence an organisation's risk capacity. Since risk capacity concerns an organisation's financial strength in terms of supporting risk-taking activities and withstanding potential loss from risk-taking failures, according to P01A, a higher level of leverage, if achieved through an increased borrowing, is likely to increase the amount of financial capital available for risk taking, which could in turn enhance the risk capacity. However, informant P01A notes that if an organisation borrows to clear existing debts, the available financial capital for risk taking would not increase, let alone the risk capacity.

Data analysis reveals that compared with organisation A, there are considerably fewer interrelationships between risk appetite factors in organisation B. In particular, it is suggested that the positive relationship between risk capacity and risk appetite may be moderated by the risk propensities of the organisation's top managers, particularly the CEO and the EC (P08B). The positive relationship between risk capacity and risk appetite tends to hold true when these key decision makers are at least 'modest' risk takers. If they are very risk-averse, however, the positive relationship may become insignificant and increasing risk capacity may not necessarily enhance the risk appetite. As informant P08B noted:

'I think it [risk capacity] is more related to the willingness of the people taking decisions. Increasing risk capacity doesn't necessarily have an influence on the kind of decisions you are taking if they are conservative...I think that the whole [risk appetite] would remain the same.' (P08B)

4.3 Summary

This chapter has presented the findings emerging from the two stages of the primary research. Using unstructured interviews with risk consultants, stage one validated and enriched the conceptual framework and identified the key factors that shape an organisation's risk appetite. Employing an online survey of financial analysts, stage two started with an evaluation of the case

organisations' risk appetite and confirmed that one organisation is more risk-averse and another is more risk-seeking. Using semi-structured interviews (complemented by questionnaires) with corporate executives and risk managers, the case study revealed what (and how) a set of factors shape the case organisations' risk appetite, and identified several interrelationships between different risk appetite factors. Whilst the factors that shape an organisation's risk appetite are largely consistent for both case organisations, some appear to have different levels of significance in shaping the risk appetite, and the ways in which many factors shape the risk appetite appear slightly different between the case organisations. Also, the complexity of the interrelationships between different risk appetite factors varies between the case organisations, with organisation A appearing to have more dynamic and comprehensive interrelationships than organisation B. The next chapter discusses the primary research findings in light of the literature.

CHAPTER FIVE

DISCUSSION

5.0 Introduction

This study sets out to explore the factors that shape an organisation's risk appetite within the context of international hotel industry. Having presented the main research findings in the preceding chapter, this chapter discusses and interprets them in light of the literature. In doing so, this chapter seeks to address the fourth and fifth objectives of this research: to explain the factors that shape an organisation's risk appetite, and to make a theoretical contribution by proposing a framework for the analysis of an organisation's risk appetite in the international hotel industry. The chapter is divided into three main sections: section 5.1 discusses three conceptual issues regarding risk appetite and offers a new account of the risk appetite construct. Section 5.2 explains in detail how a set of internal and external factors shapes an organisation's risk appetite. Emerging interrelationships between different risk appetite factors are discussed in section 5.3. All factors and the interrelationships are integrated into a risk appetite framework (Figure 5.1, p. 185), which is the main contribution to knowledge of this study.

5.1 Conceptualising the risk appetite

Over the last decade, the concept of risk appetite has attracted increasing attention from both academics and industry practitioners (Alix *et al.*, 2015; Aven, 2013; Bromiley *et al.*, 2015). Following the 2008 global financial crisis, risk appetite has become a focus of several corporate governance regulators (e.g. FRC, 2014; FSA, 2011; Weydert, 2010) and professional risk management bodies (e.g. IRM, 2011; RIMS, 2012; Rittenberg and Martens, 2012). However, there remains a disparity on the definition of risk appetite (Baldan *et al.*, 2016; Gontarek, 2016), and practitioners of different professions conceptualise the concept in different ways (Aven, 2013; Hillson and Murray-Webster, 2012). This study finds that the disparity is

not only limited to the risk appetite definition *per se*, but also related to three other conceptual issues: quantitative versus qualitative nature of risk appetite, dispositional versus situational nature of risk appetite, and risk appetite analogies. These three conceptual issues provide critical perspectives to better understand risk appetite. The following sections (5.1.1, 5.1.2 and 5.1.3) discuss these conceptual issues. Section 5.1.4 presents a unified account of the risk appetite concept.

5.1.1 Quantitative versus qualitative nature of risk appetite

A key conceptual issue emerged from the findings concerns whether an organisation's risk appetite is quantitative or qualitative in nature. The literature seems to suggest a quantitative view, as most risk appetite definitions from the practitioner authorities emphasise the total 'amount' or 'level' of risk an organisation is willing to take (FRC, 2014; IRM, 2011; ISO, 2009; RIMS, 2012; Rittenberg and Martens, 2012). In other words, the major view from the literature is that risk appetite should be represented numerically.

This quantitative view of risk appetite is supported by a majority of informants across both case organisations, as evidenced in the quote of P04A (p. 137) as well as the following:

'For me risk appetite is the amount of effort, resources, that a company's prepared to put at risk but also invest into in order to achieve its aims.' (P02A)

'It [risk appetite] is just about the level of risk that we as a company are willing to accept.' (P02B)

'My opinion is that it is the amount of risk that a company is willing to take to create shareholder value' (P07B)

This quantitative view of risk appetite is not surprising, as the informants' conceptualisations of the construct are likely to be shaped by the guidance provided by practitioner authorities (Power *et al.*, 2013). Although defining risk appetite in a quantitative manner could help decision makers to better

measure and control the organisation's exposure to risk, this study finds that a pure quantitative view of risk appetite could be problematic. One reason is that the quantification of risks is not always possible. Lam (2014) noted that risk quantification is difficult and time-consuming, and many strategic-level risks cannot be effectively quantified. As informant P07A explained:

'At the very lowest layers [of the organisation] ... you could almost put a numerical value on the risks - we will not tolerate any, not even one, fire in a hotel. As you move up the organisation through tactical risk and strategic risk, and the higher you get to a board level, they can't set a risk appetite in numerical values. That's more about the behaviours that they expect, the strategy that they want to follow, the tone, the message that they send out. It becomes a bit more blurred into what they want and risk appetite out there is defined by behaviour, by actions, by communication, etc.' (P07A)

The consequence of focusing solely on risk quantification could mean that the organisation's risk appetite statement is never fully articulated. Perhaps, this might explain the fact that very few organisations could claim that they have successfully quantified all risks and articulated their risk appetite (Alix *et al.*, 2015; Gontarek, 2016). Another reason could be that the quantitative view of risk appetite might imply an emphasis on risk control, therefore allowing little room for decision makers to promote desired, potentially value-adding risk-taking activities. Given that the purpose of risk appetite is to aid organisational risk decision making and drive performance (Aven, 2013; Lamanda and Voneki, 2015), emphasising risk control might result in a conservative mindset in decision makers and a failure to achieve optimised business performance.

Recognising the above limitation, a small number of case organisation informants (P07A; P03B; P06B) suggested a more qualitative approach to viewing the risk appetite. They argued that risk appetite should be considered as an organisation's 'mental attitude' towards taking risks, i.e. the 'willingness' or 'boldness' of an organisation to actively take risks. This view of risk appetite, as Aven (2013) suggested, allows an organisation to include qualitative statements on a range of risk-taking activities that are actively supported and/or discouraged by the decision makers. However,

this more qualitative view of risk appetite does not discard risk quantification; in fact, it acknowledges that risk quantification is essential for the articulation of an organisation's risk appetite. The key difference, compared to the dominant, quantitative view of risk appetite, is that this perspective advocates the use of explicit, qualitative statements as necessary for decision makers to communicate expectations towards unquantifiable risks or certain behaviour that the organisation clearly wishes to encourage or avoid. This more qualitative view of risk appetite is echoed in recent literature where academics and scholars suggest that an effective risk appetite statement needs to include both quantitative measures and qualitative expressions (Alix *et al.*, 2015; Gontarek, 2016; Lam, 2014). In this regard, it might be more appropriate to argue that an effective approach to viewing risk appetite is to take a 'combined' view that includes both quantitative measures and qualitative statements.

An interesting finding is that those case study informants who conceptualise risk appetite in a dominant quantitative manner work in the Risk Management function of their organisation, whereas those with the combined view work in other functions. While this could be coincidental, it is possible that informants' perceptions of the nature of risk appetite are influenced by the responsibility of their job. In both case organisations, the prime responsibility in the Risk Management function seems to be identifying, monitoring and controlling the risks faced by the organisation and its departments. Such a responsibility requires the informants to use quantitative measures and metrics to effectively monitor the organisation's risk exposure. In other functions, there is less of a need for informants to adopt the quantitative view of risk, since their main task is not related to risk management. As the Risk Management function of both case organisations is leading the task of defining and articulating the risk appetite, the resulting risk appetite statement might seem overly quantitative, and focused on controlling rather than encouraging risk taking. Such a risk appetite statement is not well suited to exploit potential opportunities, therefore failing to add value to the organisation's risk decision making (Gontarek, 2016).

5.1.2 Dispositional versus situational nature of risk appetite

Inspired from the individual risk taking literature where scholars question the nature of individual risk propensity as dispositional or situational (Roszkowski and Davey, 2010; Sitkin and Pablo, 1992), a similar question could be asked on risk appetite, which is whether risk appetite is dispositional or situational. The answer to this question has important implications for this study because it determines the ‘scope’ of the influential factors. If risk appetite is considered as dispositional, i.e. an inherent and stable organisational trait, then it is only influenced by factors inherent in an organisation (Hillson and Murray-Webster, 2012). If risk appetite is seen as situational, i.e. a behavioural tendency affected by the external environment, it is only shaped by environmental factors external to an organisation.

This research finds that an organisation’s risk appetite is influenced by a set of dispositional (internal) and situational (external) factors. This ‘combined’ view of risk appetite factors was validated in both stages of the fieldwork by risk management consultants (Figure 4.1, p. 116) and case organisation participants (Figure 4.4, p. 141 and Figure 4.5, p. 142). It offers empirical support to the long-standing argument that an organisation’s willingness to take risks is shaped by its internal and external contexts (Alix *et al.*, 2015; Baird and Thomas, 1985; Harwood *et al.*, 2009; Lamanda and Voneki, 2015).

5.1.3 Risk appetite analogy

Due to the elusive nature of risk appetite (Aven, 2013) and the lack of consensus on its definition (Gontarek, 2016), different analogies emerged in the literature to help practitioners better understand the concept. The most popular analogies might be Hillson and Murray-Webster’s (2012) ‘physical appetite for food and drink’, where an organisation’s appetite for risk is considered similar to a human being’s appetite for food and drink, and

IRM's (2011) 'fight-or-flight response', where risk appetite is viewed as an organisation's natural reaction to various risk situations.

Whilst confirming the above two analogies (more details in section 4.1) this research also identifies an alternative analogy to view risk appetite. Because of the invisible nature of risk appetite and the current challenges in articulating a risk appetite statement, informant P05A suggested that organisations might need to take an alternative approach in order to better understand the concept. He proposed that an understanding of the risk appetite concept could benefit from the study of Astronomy, where risk appetite could be considered as similar to a 'black hole' in the universe. As informant P05A illustrated:

'I think risk appetite is more like a study of science in a way - you don't have to measure necessarily, or understand the actual, or be able to see the 'chemical reaction'. You don't have to be able to see it, because often in science what you're measuring - in astronomy you're measuring the impact of something on other things. So without having to see a black hole, you know there's a black hole because of the way things around it behave. And I think that's a good analogy for risk appetite.' (P05A)

Because a 'black hole' is invisible and difficult to measure directly, scientists attempt to understand the 'black hole' by examining its impact on surrounding objects. In the same vein, one could understand risk appetite by observing its impacts on an organisation as a whole and its various components. Because risk appetite is a crucial determinant of an organisation's behaviour, the impacts of risk appetite will be reflected in how an entire organisation and its various components behave. As informant P05A further argued:

'I don't have to be able to say what the risk appetite is, because my delegation of authority, my capital investment criteria, my cultural surveys, my investment guidelines, and my allocation of resources, all of these things are impacted intuitively by the appetite of the company. So I don't need to be able to say in a statement what it is, because actually everything around me will tell me what it is. That's the black hole, [risk appetite].' (P05A)

The above view of informant P05A concurred with another informant (P01A), who expressed similar views when commenting on risk appetite and how it might be reflected in various aspects of the business:

‘Even though we don't have a tangible risk appetite statement or framework and communicate it, the company naturally has a risk appetite...we are currently thinking that risk appetite is intrinsically tied into all of these things around how we control risk, what targets we set. So if we set aggressive targets we're inherently saying we want to take more risk. If we're setting very conservative targets then we're a more conservative company. If you put more resources in risk-taking functions such as sales and marketing and development, then that means you're hungry to take the risk there. If you're allocating less or more resources to risk mitigating teams, finance, HR, IT, security, risk management, or legal, those are departments that are naturally mitigating risk. So how you allocate those resources is a reflection of the company's inherent risk appetite just built in. In terms of ‘decision making’, clearly we've just made an acquisition of a new brand. It shows that we're willing to take risks not just sit and watch. So there are other pieces around ‘governance’. So how frequently the Board and audit committees and different committees meet and how seriously they take their role. So all of that has a reflection on the company's risk appetite’ (P01A)

As suggested in the above quotes, the behaviour of an organisation and its various components/aspects may provide valuable insights about the effect that risk appetite has on the organisation. These insights could provide important feedback to the decision makers and enable them to identify situations where a certain risk level or particular risk behaviour becomes inappropriate. An accumulation of this observation for a long period of time may therefore contribute to a more comprehensive understanding of the organisation's risk appetite and what ranges of risk level or behaviour are acceptable.

Overall, the ‘black hole’ analogy extends current literature by offering a novel approach to understand the rather elusive concept of risk appetite. The various behavioural aspects of risk appetite identified by informants P01A and P05A could contribute to the identification of meaningful risk appetite measures, which are currently missing in the literature.

5.1.4 A unified understanding of risk appetite

Current risk appetite literature shows little consensus on the definition and meaning of risk appetite. By synthesising the empirical evidence and the literature, a unified understanding of risk appetite can be provided as follows:

- In the field of business and management, risk appetite refers to a dynamic representation of an organisation's intrinsic desire for risk taking at a particular point in time in order to achieve the organisation's current strategic objectives.
- Risk appetite needs to be explicitly communicated to all stakeholders of an organisation, often in the form of a written document, about the types and amount of risk the organisation is prepared or willing to take, as well as the specific behaviours that are expected and/or prohibited. The organisation should identify clear measures on which to set desired limits for taking quantifiable risks, and articulate qualitative statements to clarify expectations for taking difficult-to-quantify risks.
- An organisation's risk appetite is not static but dynamic. It changes from time to time and is shaped by specific circumstances in the organisation's internal context as well as the external environment in which the organisation operates.
- Risk appetite impacts how an organisation behaves. An understanding of risk appetite can be achieved by examining the behaviour of the organisation, which is reflected in the choices that the organisation makes for itself and in various components/aspects. Examples of the components/aspects include setting targets and strategy, delegation of authority, capital investment criteria, allocation of resources, and structure of governance. Observing how an organisation behaves in these aspects provides decision makers

with insights about the impacts of risk appetite, enabling the organisation to formulate a ‘knowledge base’ about the acceptable range of risk-taking limits and/or situations where a particular choice becomes inappropriate. Over time, this ‘knowledge base’ can help decision makers to develop better quantitative measures and qualitative statements for their risk appetite statement.

Compared with most accounts of risk appetite offered in the literature, the above statement provides a more unified explanation of the concept. This explanation integrates empirical evidence with key literature arguments that ‘organisations have appetites for risks’ (Fischhoff *et al.*, 1981; Hillson and Murray-Webster, 2012), which includes ‘quantitative measures of risks’ (Gontarek, 2016; Lam, 2014) and ‘qualitative statements’ (Aven, 2013). It extends the literature by explicitly highlighting the ‘dynamic’ and ‘implicit’ nature of risk appetite.

5.2 Factors that shape an organisation’s risk appetite

Overall, the case study of two international hotel companies has explored what (and how) a set of internal and external factors influence an organisation’s risk appetite (Figure 4.4, p. 141 and Figure 4.5, p. 142). While the factors that shape the risk appetite are largely consistent for the case organisations, the significance of many factors and the way they influence the risk appetite appear different. It is these differences that lead to the two case organisations displaying different appetites for risk, as suggested in the analyst evaluation and company document analysis.

Comparing the case study findings with the literature and the stage one framework (Figure 4.2, p. 132), a ‘living organisation’ framework (Figure 5.1, p. 185) of factors that shape an organisation’s risk appetite has been developed, which is the main contribution to knowledge of this study. The framework extends previous studies (Baird and Thomas, 1985; Harwood *et al.*, 2009; Hillson and Murray-Webster, 2012; Pablo and Javidan, 2002) by

offering a more comprehensive, structured and applicable approach to investigate an organisation's risk appetite.

A key difference between the 'living organisation' framework of risk appetite factors (Figure 5.1, p. 185) and the stage one framework (Figure 4.2, p. 132) is the evaluation of the significance of individual factors to risk appetite. Based on each factor's level of significance to risk appetite and whether it is shared between the case organisations or specific to one organisation, all factors have been classified into three categories: primary, secondary and tertiary factors.

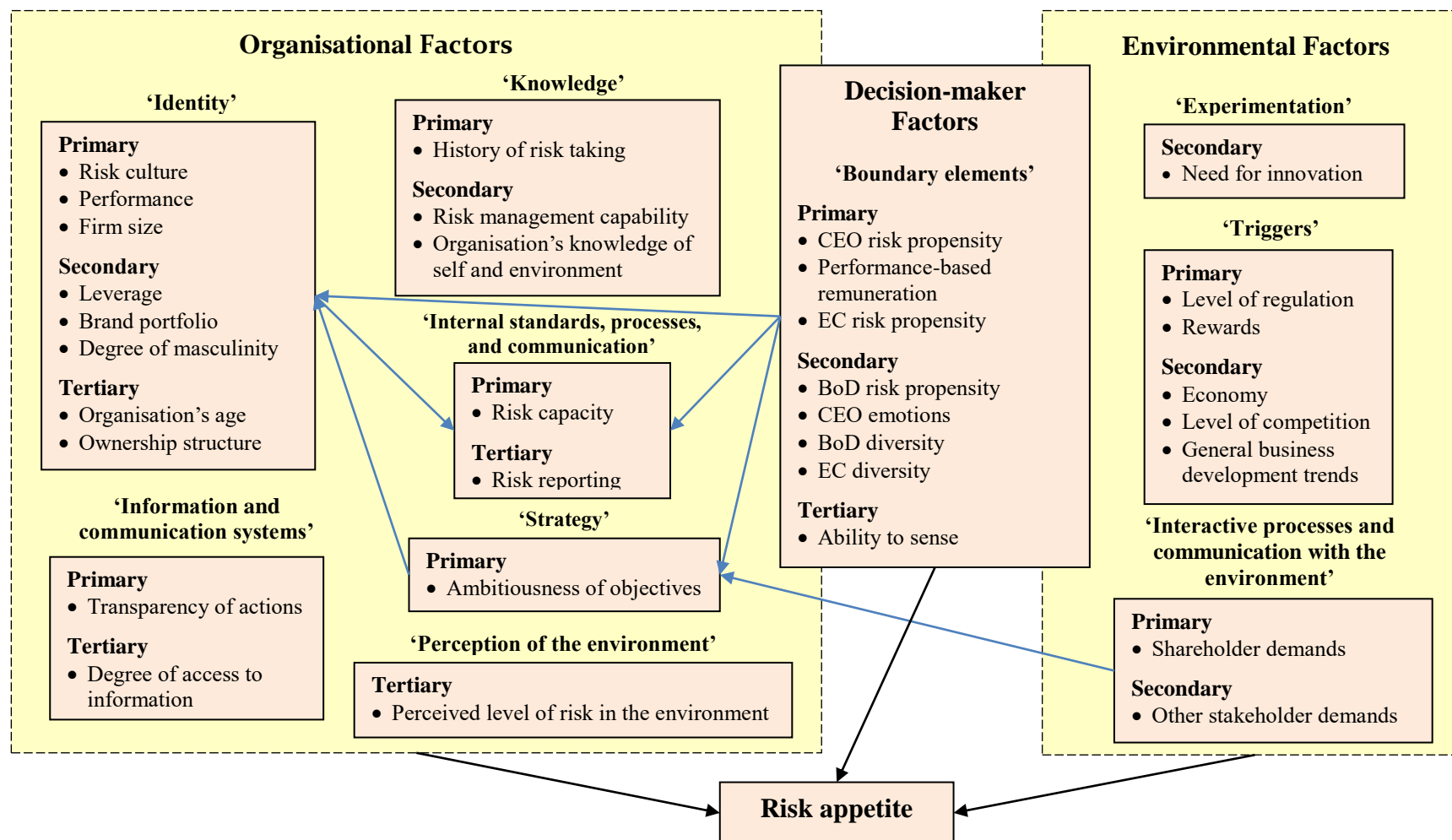
The 'primary' category includes shared factors that are key or important to risk appetite. Factors within this category are highly likely to shape an organisation's risk appetite and also to a great extent. As such, primary factors are argued to be essential considerations for understanding and analysing an organisation's risk appetite.

The 'secondary' category also contains key or important factors, but their significance to risk appetite is only specific to one organisation. In other words, secondary factors are organisation-specific: a factor which exerts a significant influence on the risk appetite for a particular organisation may have little or no influence on the risk appetite of another organisation. It is therefore suggested that the secondary factors to be considered after the consideration of primary factors.

The 'tertiary' category comprises factors that are shared between the two case organisations, but are less important to risk appetite than primary and secondary factors. However, this does not mean that tertiary factors should be discarded. While a single tertiary factor may have a limited impact on the risk appetite, a group of them could exert much stronger impacts and change the risk appetite considerably. Hence, the tertiary factors are suggested to be considered after primary and secondary factors.

Such an importance-based categorisation of risk appetite factors addresses a limitation in the literature that the importance of risk appetite factors is ignored or assumed to carry equal weighting in shaping the organisation's risk appetite. Therefore, it provides a more structured approach for prioritisation and analysis of factors that shape an organisation's risk appetite. The factors that shape an organisation's risk appetite are discussed individually in light of the literature in the following sections.

Figure 5.1 A 'living organisation' framework of factors that shape an organisation's risk appetite



5.2.1 Organisational factors that shape risk appetite

Organisational factors concern an organisation's internal characteristics, functions, and processes. In total, the findings have highlighted seven primary, five secondary and five tertiary factors, which are further placed in six components of the 'living composition' model (Figure 5.1, p. 185). Apart from the 'perception of the environment' component, all other five components comprise at least one primary factor, suggesting that these components are essential for risk appetite consideration.

5.2.1.1 'Identity' factors

Primary 'identity' factor - Risk culture

Consistent with the idea that an organisation's risk culture could shape its risk appetite (Gontarek, 2016; Hillson and Murry-Webster, 2012; IRM, 2012; Power *et al.*, 2013), it has been found in this study that risk culture plays a highly important role in shaping an organisation's risk appetite. There is a general consensus among most informants that risk culture reflects the shared values and beliefs in an organisation as to how risk is viewed and understood, to what extent risk is considered in the decision-making process, and whether the managerial ownership of risks is voluntary or forced. A strong risk culture would have a high level of risk-awareness in the decision-making process, the risk ownership is highly voluntary, the risk impacts and potential rewards are well considered, and the management of risks is proactive. This finding describes the characteristics of a strong risk culture, therefore particularly addressing the call of Gontarek (2016) for more understanding of organisational risk culture.

Regarding the way risk culture influences the risk appetite, it has been widely agreed among informants that risk culture encourages organisational risk taking. This is because a strong risk culture provides assurances to decision makers that the organisation's risks are properly recognised and managed. The stronger the risk culture, the more confident the decision

makers are in the organisation's ability to manage risks, therefore leading to a higher risk appetite. For example, informant P01A explained:

'If you are more risk-informed then inherently it allows you to take more risk actually. Because it gives you comfort that all of the things that you're worried about is either mitigated or not. Then you're clear about how much capacity you've got to take risk. So it gives you confidence to go and buy that, acquire that company. You don't have some unexpected uncertainty that will say oh actually how you need money to pay here and you didn't think about it.'
(P01A)

However, the above positive association between risk culture and risk appetite may not always be the case. Two informants of organisation B (P03B; P07B) argued that a strong risk culture with a high level of risk-informed decision making may render the decision makers to be overly sensitive to potential risks and become less effective in assessing the relevance of risk information. As a result, the amount of risk information may overwhelm the decision makers and delay the decision making process, thus losing potentially rewarding business opportunities. For example, informant P03B's account on p. 150 demonstrates this point.

According to Zinn (2015), this negative association between risk culture and risk appetite, as suggested by informant P03B and P07B, could be contingent upon the level of risk propensity of the decision makers. Zinn (2015) argued that risk appetite is likely to be the result of a combination between risk culture and individual desire for risk taking. This means that decision maker risk propensity may have a moderating effect on the relationship between risk culture and risk appetite. In particular, if the decision makers have a low risk propensity, i.e. they are relatively risk-averse, a stronger risk culture is more likely to lead to the identification of more risks, which decision makers could become uncomfortable to bear, therefore forcing them to lower the organisation's risk appetite. Therefore, organisations need to seek an alignment among risk culture, decision-maker risk propensities and risk appetite.

Primary 'identity' factor - Performance

The performance of an organisation has long been recognised in the literature as an important factor shaping the organisation's willingness to take risks (Chen and Miller, 2007; Jung and Bansal, 2009; Lee, 1997). Prominent organisational risk taking theories such as BTOF (Cyert and March, 1963; March and Simon, 1958) and TRT (Staw *et al.*, 1981) were particularly developed to explain the relationship between performance and organisational risk propensity. Overall, the literature suggests that performance is a key factor that drives an organisation's risk appetite, but it fails to explain why performance is important, and the way in which performance influences risk appetite was inconclusive among scholars.

Confirming the primacy of performance as a key factor driving an organisation's risk appetite (Chen and Miller, 2007; Jung and Bansal, 2009; Lee, 1997), informants explained that an organisation's level of performance could provide crucial information to decision makers regarding the extent to which the organisation's strategic objectives can be achieved. Given that strategic objectives play a central role in driving an organisation's risk appetite in this study, it is not surprising to expect the important role of performance in shaping the risk appetite.

In analysing the effect of performance on risk appetite, the literature suggests that it is crucial to recognise whether the performance has met the organisation's targets or aspirations (Lee, 1997; Lohrke *et al.*, 2006; Park, 2007). If the performance has met the target or on course to meet the aspiration, the organisation can be considered as performing well; whereas if the performance has already failed to meet the target or is failing to meet the aspiration, the organisation can be considered as underperforming. The literature has demonstrated that an organisation tends to show different risk appetites during good performance and underperformance. Regarding the effect of underperformance on organisation's risk appetite, two schools of thoughts prevail in the literature. One school, which is led by the BTOF (Cyert and March, 1963; March and Simon, 1958), argues that

underperformance will make the organisation more willing to take risk, because the potential rewards from increased risk-taking activities may compensate the underperformance and drive the performance to meet or even exceed the target (Bromiley, 1991; Chen and Miller, 2007; Greve, 1998). By contrast, another school of thoughts, led by the TRT (Staw *et al.*, 1981), suggests that underperformance will lead to a reduced risk appetite, because the decision makers believe that limiting the amount of uncertainty in the organisation's activities and returning to established operating procedures could improve the performance (Chattopadhyay *et al.*, 2001; Jung and Bansal, 2009; Lee, 1997).

In line with Bromiley (1991), Chen and Miller (2007) and Greve (1998), this study finds that both case organisations tend to take more risks in the event of underperformance, due to the belief that increased risk-taking activities may bring more rewards and therefore compensate the underperformance of the organisation. Informant P05A provided an example on p. 153 to illustrate how underperformance could lead to an increase in risk appetite.

However, this finding is not enough to refute the other school of thoughts advocated by Chattopadhyay *et al.* (2001) and Jung and Bansal (2009), because it was not clear whether informants perceived the underperformance as repairable or not (Shimizu, 2007). If the underperformance is deemed repairable, i.e. the performance level is relatively close to target, the organisation tends to become more willing to take risks; however, if the underperformance is perceived as irreparable, i.e. the performance level is far from the target, the organisation tends to become less willing to take risks, and focus on domains of activities it feels most comfortable and has the greatest control (Shimizu, 2007).

Concerning organisations with good performance, i.e. performance level meets or exceeds the targets, the literature, which is primarily influenced by BTOF (Cyert and March, 1963; March and Simon, 1958), suggests that such organisations tend to become less willing to take risks (Chen and Miller,

2007; Ketchen and Palmer, 1999; Park, 2007). This is due to a belief from decision makers that any extra risk taking could bring unnecessary uncertainty to the organisation and potentially jeopardise its good performance (Wiseman and Bromiley, 1996). The case study suggests a mixed view in this regard. Whilst some informants confirmed the negative relationship between good performance and risk appetite, many others identified a positive relationship, i.e., an organisation whose performance meets or exceeds the targets will be more willing to take risks. This finding contradicts most empirical evidence in the literature (Chen and Miller, 2007; Ketchen and Palmer, 1999; Park, 2007; Wiseman and Bromiley, 1996). The main reason for this positive relationship could be an internal drive from the decision makers. Informant P07A indicated that good performance boosts the decision makers' confidence in the organisation's ability to achieve elevated targets and manage associated risks. As a result, the decision makers are more likely to 'stretch' the organisation further by taking on more risks to achieve a better performance. As he argued:

'I can't think of anything where we've been told 'we're performing well so scale back a bit on your risk'. So I think it's increase, but not very much, because if you're doing well then it's very much continue what you're doing and pushing it a little bit. Yes, continue to stretch. So a lot of - we've been running metrics now, so to increase performance you set targets and every year those targets, if you hit them the next year, expect it to be stretched.' (P07A)

This internal drive could also be linked to external pressures, particularly from the shareholders. Informant P03B indicated that international hotel groups are under constant pressure to drive shareholder value. Once the existing performance targets are met, the shareholders will push to the organisation to set higher targets, which usually require an increased level of risk taking to achieve. As he explained:

'If you're not achieving your targets, then you're willing to take more risk because you have to improve. The street is not going to be willing to accept that. Whether it's leadership changes or strategic changes, it will come about because you're not delivering shareholder expectations. If you are delivering and you are successful, then it sort of creates that cycle of 'This has been

working, let's keep it going and maybe we need to do a little bit more; how else can we improve it', because nobody's going to be satisfied with of you did deliver a great performance, the shareholders' expectation is you can do that again – 'plus', and how do you get to that 'plus'?' (P03B)

This constant pursuit of rewards as mentioned above reflects human greed, which informant P02A argues is a fundamental driver of human risk taking.

Primary 'identity' factor - Firm size

The size of an organisation has been recognised as a critical factor that influences its survival in its industry (Gemar *et al.*, 2016). Due to the characteristics of the hotel industry, international hotel companies appear to measure firm size in the number of rooms, rather than measuring the total amount of resources as suggested in the more generic business literature (Audia and Greve, 2006; Chung and Yoon, 2013; Walls, 2005b). Despite some different opinions by P01A and P05A, this study has found that firm size plays an important role in shaping the risk appetite of international hotel companies. Whilst the reason underpinning this importance is not revealed, it could be the case that firm size is seen a key indicator of a hotel company's competitiveness in the global market (Lee *et al.*, 2014; Pereira-Moliner and Tari, 2015). In the context of the international hotel industry, the larger the size, the more competitive and resourceful the organisation would seem, and the more attention the organisation could draw from potential investors and partners (Sami and Mohamed, 2014). As the development of hotel companies relies increasingly on the third-party property owners due to the use of asset-light strategies (Sohn *et al.*, 2013), it is not surprising to find out that decision makers in this study have placed greater emphasis on firm size.

Regarding the effect of firm size on risk appetite, the literature suggests a positive relationship from two perspectives: from a resource perspective, large organisations have more experiences, knowledge and capital (e.g. financial and human) than smaller organisations, hence they are more

capable to support increased risk-taking activities and absorb potential losses (Audia and Greve, 2006; Walls, 2005b). From a psychology perspective, large organisations are often equipped with a too-big-to-fail mentality (Bhagat *et al.*, 2015; Chang, 2010; Mattana *et al.*, 2015), assuming that the government will intervene and save them in case of failure (Gropp *et al.*, 2014; Volz and Wedow, 2011).

The data analysis showed a positive relationship between firm size and risk appetite from a majority of informants. However, while the abovementioned 'psychology' explanation could be supported, there was no data to confirm the 'resource' explanation. Nevertheless, the too-big-to-fail mentality in the psychology explanation is not underpinned by the same view of the literature that the government will bail them out in case of a failure (Gropp *et al.*, 2014; Volz and Wedow, 2011). Rather, the mentality is formulated by a growing complacency among decision makers about the organisation's capability to manage risks in the uncertain global environment. It is found that decision makers seem to believe the sheer size of the organisation can effectively contain and absorb any potential damage. For example, as informant P06A noted:

'It did hit home when you mention size. Our size actually allows us to take a lot of risks. Because we're so big, it's always that thing that if we lose a hotel it's not the end of the world... because we have the capacity and we're huge, so we can actually take a lot of risks.'
(P06A)

This too-big-to-fail mentality can be detrimental to the achievement of the organisation's strategic objectives because it may not only drive unnecessary risk taking, but also contribute towards higher impact risks, such as the systemic risk (Bierth *et al.*, 2015; Park and Kim, 2016;). The collapse of large banks during the 2008 financial crisis is the best example of the potential damage systemic risk can impose on large organisations (Weiß *et al.*, 2014).

Despite the major view of positive relationship between firm size and risk appetite, some informants (P02A; P07A; P08A) also suggested that larger organisations might reduce their risk appetite, because larger organisations 'have more to defend' (P02A). Informant P07A explained this negative relationship from a compliance breach perspective. He argued on p. 152 that because large international hotel companies tend to face greater challenges in oversight and quality control compared to their smaller counterparts, and given their global scale, it is more difficult for them to ensure constant compliance to standards and policies.

The statement of informant P07A (p. 152) is in line with Ettredge *et al.* (2011), who found that large organisations are less likely to comply with information disclosure regulations. If the organisation is a publicly listed organisation, a single compliance failure might attract wide media coverage, causing negative sentiments among stakeholders and damaging the organisation's reputation (Berezina *et al.*, 2012).

Secondary 'identity' factor - Leverage

Generally, leverage refers to the use of debt to fund an organisation's assets and/or operations (Bhagat *et al.*, 2015). It is a common means of financing in the hospitality industry (Jang and Tang, 2009), and if used properly, can lead to greater profitability for an organisation than issuing equity (Madan, 2007; Sheel and Wattanasuttiwong, 1998; Yoon and Jang, 2005). Although the decision to use debt financing is arguably the result of an organisation's risk appetite (Bhagat *et al.*, 2015; Chen, 2013; Dell'Ariccia *et al.*, 2014), because it is fundamentally risk-seeking (Verwijmeren and Derwall, 2010), the question regarding whether an organisation's leverage level could influence its risk appetite appears to have been neglected in the literature.

This study finds that leverage could have a significant constraining impact on an organisation's risk appetite. This is primarily due to the fact that organisations that use debt financing are under constant pressure to meet repayment obligations. Informants seemed to understand well the

repercussions of repayment failure, which, according to Lee *et al.* (2011), could include the repossession of organisation's assets and damage to the organisation's reputation and investor confidence.

However, the study also finds that leverage might only become a concern for risk appetite if the organisation is moderately or highly leveraged. This is because repayment obligations can be relatively easy to meet if the organisation's level of leverage is low. For example, informant P07B explained on p. 151 the reason why leverage was not a concern for the organisation.

Although the current leverage level in organisation B does not cause a concern, informants still recognise the potential impacts leverage could have on the business. Two informants (P06B; P08B) suggested that if the organisation's leverage increases, the pressure for repaying the debt and the organisation's risk of bankruptcy will increase (Upneja and Dalbor, 2001; Upneja and Dalbor, 2009; Verwijmeren and Derwall, 2010); this, in turn, tends to make the decision makers more prudent in making future risk decisions, because any risk-taking failure could seriously hinder the organisation's ability to repay its debt.

An interesting issue that emerged from the findings is that leverage might not be a concern for risk appetite, even if the organisation has a high level of leverage. This argument is based on the view that organisations are publicly limited entities, where decision makers are not individually held liable for its financial loss (see quote of P04B, p. 151). In other words, there is little to lose for the decision makers, even though their decisions could result in the collapse of the organisation.

Whilst the view of informant P04B is rather surprising, it is supported by Mitchener and Richardson (2013), who found a significant positive relationship between limited liability and level of leverage in companies of the banking industry.

Secondary 'identity' factor - Brand portfolio

The important role of brand portfolio to the success of hospitality organisations has been well documented in the literature (Jackson and Qu, 2008; Jiang *et al.*, 2002; Wang and Chung, 2015). As different brands enhance the organisation's product offering and attract customers from various segments, operating a diverse brand portfolio has been recognised as an effective means of risk diversification and return maximisation (Aaker, 2004). If the brand portfolio also targets various geographical locations, the organisation could effectively mitigate the risks associated with a particular market (Morgan and Rego, 2009). However, the diversity of the brand portfolio needs to be appropriately balanced. Excessive diversity in a brand portfolio could create complications in marketing and management (Sichtmann and Diamantopoulos, 2013), confuse customers (Aaker, 2004), and even dilute the meaning of the corporate brand (Wang and Chung, 2015).

Congruent with the arguments of Aaker (2004) and Morgan and Rego (2009), this study finds that a geographically diverse, multi-branded portfolio can effectively mitigate an organisation's overall risk exposure in the international markets. This diversity, in turn, enhances the organisation's capability to proactively manage its risk taking to suit local market conditions. In this regard, the diversity of brand portfolio enhances an organisation's risk appetite. Informant P06B explains why a diverse brand portfolio is important:

'If you have only one brand to manage, you can literally put all your resources, all your money, all your time, all your focus on one brand, which means you probably take a bigger risk. If you have a much deeper portfolio of brands like we do, you have to prioritize. You might be able to take a higher risk for [Brand A] or the other way around because you also sort of evaluate where are you are likely to lose more money, and it's also not just number of brands but number of markets you target. If you operate in one market, you can take very little risk but if you operate in more than one market you can hedge your risks accordingly. If the market is suffering in Middle East, then you can optimize Western Europe, but if the market is

suffering in Western Europe, you can maybe optimize Eastern Europe.’ (P06B)

While the diversity of brand portfolio is an important factor influencing the risk appetite of organisation B, it is ‘less important’ for organisation A. This difference might be related to the different levels of diversity in the case organisations’ brand portfolios. Compared with organisation A whose brand portfolio is often regarded as highly diverse, the diversity of brand portfolio of organisation B is comparably lower. It could be the case that when an organisation’s current brand portfolio lacks diversity (e.g. organisation B), a new brand addition could significantly enhance the organisation’s capability to diversify market risks. If, on the other hand, the organisation already has a largely diverse brand portfolio that covers most customer segments and geographical markets (e.g. organisation A), a new brand addition may have little impact on the organisation’s ability to diversify risks. As such, the impact of brand portfolio diversity on risk appetite is more prominent when the diversity is at a lower level.

Secondary ‘identity’ factor – Degree of masculinity

Inspired by the extensive research into the influence of gender on individual risk propensity (Hariharan *et al.*, 2000; Neelakantan, 2010; Powell and Ansic, 1997; Schubert *et al.*, 1999; Wang *et al.*, 2009; Watson and McNaughton, 2007), degree of masculinity was conceptualised as the organisational equivalence for gender in this study. At the organisational level, degree of masculinity describes the extent to which an organisation exhibits masculine cultural values. Such values typically refer to emphasis on self-assertion, independence, control, competition, focused perception, rationality, analysis and achieving results (Alvesson, 2002). Opposed to these masculine values are feminine values, which include interdependence, cooperation, receptivity, acceptance, emotion, intuition, synthesising and learning from the process. This study assumed that an organisation that displays more masculine characteristics would be more likely to behave like a man when it comes to taking risks. As men are generally more willing to

take risks than women (Hariharan *et al.*, 2000; Neelakantan, 2010; Wang *et al.*, 2009; Watson and McNaughton, 2007), an organisation exhibiting a higher degree of masculinity would display a higher willingness to take risks.

Despite some mixed opinions in both case organisations, the degree of masculinity was found to be ‘less important’ for organisation A but ‘important’ for organisation B. Nevertheless, the influence of masculinity on the risk appetite was unanimously considered to be positive. While the reason underpinning this positive relationship is unknown, possible explanations could be drawn from the literature. Neelakantan (2010) argued that the effect of gender on individual risk propensity is only robust when other influential factors are controlled. In other words, gender is also associated with other factors, which could have moderating and mediating effects on the relationship between gender and individual risk propensity. Schubert *et al.* (1999) demonstrated that if the factor of framing is introduced to the relationship between gender and individual risk propensity, the effect could change. In this regard, it could be reasonable to suspect that other factors might have interfered with the relationship between degree of masculinity and the risk appetite, therefore resulting in the observed differences between case organisations.

Tertiary ‘identity’ factor – Age of the organisation

Originating in the individual risk taking literature, age is an important factor influencing the individual risk propensity (Wang *et al.*, 2009; Faff *et al.*, 2009). Whilst empirical evidence seems inconclusive (Grable and Lytton, 1998; Mata *et al.*, 2016), the most convincing argument appears that age has a U-shaped effect on the risk propensity (Al-Ajmi, 2008; Ardehali *et al.*, 2005; Riley and Chow, 1992). That is, the risk propensity is likely to decrease as one ages; once the individual reaches a certain point in age, the risk propensity will start to increase (Faff *et al.*, 2008). Based on the living organisations thinking, the age of an organisation is envisaged to have a mixed effect on its risk appetite.

However, this study finds that age is a ‘less important’ consideration for an organisation’s risk appetite. Instead of having a direct effect on the risk appetite, the association between age and risk appetite is more likely to be indirect, since age is often discussed with increased past experience and knowledge, which are found to be more prominent factors influencing the organisation’s risk appetite.

With regard to the relationship between age and risk appetite, data analysis reveals a negative relationship with organisation A, but a positive relationship with organisation B, therefore showing some incongruence with literature predictions. This finding indicates that the relationship between age and risk appetite is likely to be organisation-specific, and different organisations in different circumstances might have different associations of age and risk appetite.

Tertiary ‘identity’ factor – ownership structure

Referring to the types and composition of different shareholders within an organisation (Tricker, 2012), the ownership structure of an organisation is argued to influence its risk appetite (Anderson and Fraser, 2000; Barry *et al.*, 2011; Carpenter *et al.*, 2003; May, 1995; Saunders *et al.*, 1990). This is based on the assumption that the organisation’s risk decisions will inevitably impact on the organisation’s financial performance as well as the shareholder value (Barry *et al.*, 2011; Weissman, 2012). Because the shareholders have invested their personal wealth into the organisation, they often demand the organisation to take more risks to maximise the value of their investments (May, 1995).

However, this study finds that ownership structure has little influence on both case organisations’ risk appetite. This is surprising, given the findings that both case organisations consider driving shareholder value or delivering shareholder satisfaction as one of their key priorities. While the data does not explain this low importance of ownership structure, a possible

explanation could be linked to the argument (P05A; P06B) that the shareholders are not always pressing the case organisations to take risks. Saunders *et al.* (1990) noted that not all shareholders of an organisation would act opportunistically and demand quick returns (Saunders *et al.*, 1990); instead, many shareholders, such as family investors and REITs (Paligorova, 2010), are known to prefer returns that are slower but more sustainable (Weissmann, 2012; Wright *et al.*, 1996). If the case organisations in this study are mainly owned by such ‘patient’ shareholders who do not place unnecessary pressure on decision making, it is reasonable to expect that the factor of ownership structure will have a minimal effect on its risk appetite.

5.2.1.2 ‘Knowledge’ factors

Primary ‘knowledge’ factor – History of risk taking

An organisation’s history of risk taking refers to the organisation’s past experiences of taking risks as well as the outcomes (Carothers, 2011). As a living entity (Maula, 2006), an organisation has the ability to draw lessons from its prior successes and failures to inform its future behaviour (Desai, 2008; Maula, 2006). While such experienced-based learning cannot guarantee future success (Thornhill and Amit, 2003), it could increase the possibility (Sorenson, 2003) by lowering the operational costs and enhancing the quality and reliability of products and services (Darr *et al.*, 1995; Levin, 2000).

Congruent with the arguments that organisations draw on their historical experiences to determine future risk taking (Bouwman and Malmendier, 2015; Kaufmann *et al.*, 2013), the history of risk taking is found as a vital source of reference for case organisations to make future risk decisions, especially for organisation A. For example, informant P05A mentioned:

'Past risk-taking experience is very important because that's how most people behave. Their judgments are usually based on their experience, especially senior people in this organisation.' (P05A)

This finding of relying on prior experience to understand and analyse risk situations supports the argument of Hertwig *et al.* (2004) and Kaufmann *et al.* (2013) that human beings are more likely to estimate the possible outcomes of risky choices by sampling from their own experience, rather than basing on external statistical calculation. However, this estimation is often based on a relatively small number of experience occasions as well as from the most recent experience, therefore the decisions are likely to be biased and important information regarding potential risks might be overlooked (Hertwig *et al.*, 2004). As such, it is crucial for organisations to recognise the limitation of drawing on past experience.

Despite acknowledging the importance of past experience to risk decision making, the literature has been inadequate in explaining how past experience might affect an organisation's risk appetite. Carpenter *et al.* (2003) argued that prior experience of taking a particular risk could reduce an organisation's future assessment of the same risk. This is due to the belief that lessons learned from the risk-taking experience, regardless of the outcome, could become valuable knowledge that improves the organisation's understanding of the risk and the design and implementation of risk controls (Carpenter *et al.*, 2003; Wiseman and Gomez-Mejia, 1998). This enhanced understanding of the risk and its control could therefore lower the perceived likelihood of the risk happening and/or the magnitude of the risk impact (Sitkin and Pablo, 1992).

Notwithstanding the literature, this study finds that different outcomes of past risk-taking experience influence the risk assessment in different ways. Whilst past success is likely to reduce the assessment of risk exposure and enhance management confidence, past failure indicates that the organisation is ineffective in understanding and managing the risk, and as such, is likely to damage the confidence of decision makers and render them even more

risk-averse. Therefore, prior unsuccessful experience in risk taking is more likely to reduce the risk appetite.

Nevertheless, the influence of past risk-taking experience on risk appetite is not recognised by all informants. For example, on p. 145 informant P08A argued that past experience only increases the organisation's awareness of potential risk taking outcomes.

Secondary 'knowledge' factor – Risk management capability

The risk management capability of an organisation refers to its ability to perform risk management tasks in order to effectively manage its risks and attain organisational objectives (Gao *et al.*, 2013). The higher the risk management capability, the better the organisation is at understanding and managing its risks (Lam, 2014). It has been demonstrated that risk management capability can positively drive an organisation's financial performance (Chao *et al.*, 2014). While recent literature has concentrated on developing instruments to assess an organisation's risk management capability (Hopkinson, 2011; Mu *et al.*, 2014; Zou *et al.*, 2010), work that focuses on the relationship between risk management capability and risk appetite is rare.

Practitioner literature (Buehler and Pritsch, 2003; COSO, 2009; IRM, 2011; Stijnen, 2011) suggests that an organisation's risk management capability is an important determinant of its risk appetite – good risk management capability should positively drive the risk appetite. This argument is supported by organisation B, as its informants unanimously agreed that risk management capability is a key factor that drives the organisation's risk appetite.

However, the findings indicate that the importance of risk management capability could well be organisation-specific. The question as to whether risk management capability shapes the risk appetite could be contingent upon how the decision makers consider the role of risk management

capability within an organisation. Most informants in organisation A (e.g. P07A, p. 146) argued that risk management capability is a relatively less important factor influencing the risk appetite, because risk management capability is more of an ‘enabler’, rather than a ‘driver’, for risk taking. As Informant P07A argued:

‘If you’ve got a good risk management system in the business, it would enable you to some of those risks, but it is not the reason why you should take those risks.’ (P07A)

Regarding organisation B, risk management capability is argued to be positively associated with an organisation’s risk appetite. According to some informants (P02B; P05B; P06B; P07B), this is because higher risk management capability leads to more efficient and effective risk management in the organisation. As such, the decision makers are more confident that the organisation can better manage a higher level of risks than others, hence leading to a higher willingness to take risks. This view suggests that risk management capability in organisation B might have been seen as a competitive advantage of the organisation. Several scholars have argued that an organisation’s ability to manage risks better than others is indeed a distinct source of competitive advantage and should be actively exploited to generate more rewards (Britten, 2013; Elahi, 2013; Strongin and Petsch, 1999). However, this does not mean that the organisation should increase its risk appetite in all aspects. Since it is unlikely for an organisation to have strong management capability in all types of risks (Elahi, 2013), it is important for the organisation to identify areas where the organisation has better expertise or competence in managing risks, so that the organisation could increase its appetite in those more competent areas.

Secondary ‘knowledge’ factor – Knowledge of self and environment

Risk taking literature suggests that knowledge plays a highly important role in shaping the risk propensity of either an individual (Grable, 2000; Grable and Joo, 2004; Watson and McNaughton, 2007) or an organisation (Baird and Thomas, 1985; Wang, 2009; Xue, 2014). However, this study finds

mixed evidence in this regard. While knowledge is an important consideration to organisation A, it is less so to organisation B.

Organisation A considers knowledge as a highly important and useful source to inform organisational risk decisions. Informants commented that increased knowledge will enhance the organisation's understanding of its risks, particularly in terms of their causes, their likelihood of happening and potential impacts. This enhanced understanding will in turn make the risks seem more reasonable and easier to manage. This is compatible with the literature argument that knowledge could make the organisation become more familiar with the problem domain and thus reduce the assessment of the risks (Sitkin and Pablo, 1992; Xue, 2014). As such, for organisation A, increased knowledge is likely to boost the confidence of the decision makers in effectively managing the risks, therefore leading to a higher risk appetite.

On the other hand, knowledge is not an important consideration for risk appetite in organisation B. This is because that increased knowledge, particularly about the organisation's external environment, is perceived as resulting in the identification of more risks to the organisation, therefore deterring the decision makers from making risky but potentially rewarding decisions. As argued by informant P07B:

'Too much knowledge about the environment, the local market, tends to delay our decision-making, and the company might lose out on signing important hotel development deals to competitors'. (P07B)

As such, in organisation B knowledge is considered as an unfavourable factor for risk decision-making and thus has been discarded in the consideration of risk appetite. This finding contradicts to the literature, where knowledge has been suggested as a key factor that positively drives an organisation's willingness to take risks (Baird and Thomas, 1985; Wang, 2009; Xue, 2014).

The above difference with regard to the importance of knowledge on risk appetite could be related to the specific circumstances of the case

organisations. Although both organisations compete on an international scale, their priority markets are highly different and with varying levels of uncertainty. As a leader of the hotel industry, organisation A's priority markets are concentrated on the mature markets. Conversely, organisation B, as an industry follower, targets primarily the emerging markets, where the levels of political, economic, and social-cultural uncertainty are considerably higher than the mature markets. With such a background, increased knowledge for organisation A is likely to be seen as providing assurances to decision makers that potential risks are well-understood and can be effectively managed; however, for organisation B who wishes to catch up with the industry leaders, increased knowledge is likely to be perceived as more of a barrier to achieving growth targets. This finding suggests that knowledge cannot be taken for granted as a value-adding factor for risk appetite; rather, one needs to consider the wider context of the organisation to understand the effect of knowledge on risk appetite.

5.2.1.3 'Strategy' factors

Primary 'strategy' factor – Ambitiousness of objectives

Due to the notion that the ultimate aim of having a risk appetite is to assist an organisation in achieving its objectives (Aven, 2013; Lam, 2014), there has been a consensus in the literature that an organisation's objectives play a vital role in affecting its risk appetite (Carothers, 2011; Hillson and Murray-Webster, 2012; IRM, 2011; Rittenberg and Martens, 2012). Consistent with this argument, this study finds that the ambitiousness of objectives is one of the key factors that shape an organisation's risk appetite.

The main reason why objectives are vital for an organisation's risk appetite is that they provide clear goals and directions for an organisation (Hillson and Murray-Webster, 2012; IRM, 2011). Describing objectives as '*orders in the battlefield*' (P02A), informant P06A's quote on p. 143 illustrated how the organisation's objectives have dictated its operational focus.

Extending the literature, an interesting finding is that objectives can become even more prominent if the organisation publicly announces them. In this study, the fact that both case organisations publicly communicate their objectives to the stakeholders has made achieving those objectives the top business priority. Whilst publicising the objectives can be helpful in demonstrating transparency and attracting potential investors, it sets stakeholder expectations that these objectives must be met. Informants across both case organisations commented that if the organisation fails to meet such expectations, it is likely to experience reduced investor confidence and possibly reputational damage. As informant P08A explained:

'Company strategy is advertised and articulated in a number of media, but certainly our stakeholders, shareholders, investors are very aware of our strategy and failure to deliver on that strategy would create implications in terms of share price and performance. So if you have publicly stated objective you've absolutely got to deliver it. That drives your risk appetite. If your objectives are testing and challenging you've got to have an appetite to achieve that because failure in the public world doesn't sit very well. So I think that is probably one of the key drivers [of risk appetite].'
(P08A)

Regarding the relationship between the ambitiousness of strategic objectives and risk appetite, this study has found a two-way, positive association. Most informants indicated that the achievement of a highly ambitious objective would require the organisation to increase its risk appetite. In turn, an organisation with a large risk appetite is more likely to set future objectives that are highly ambitious (P01A; P05A). This adds to the literature another dimension on the relationship between strategic objectives and risk appetite, where existing arguments seem to have only acknowledged a one-way relationship (e.g. Bhatta, 2003; RIMS, 2012).

5.2.1.4 ‘Internal standards, process, and communication’ factors

Primary ‘internal standards, process, and communication’ factor – Risk capacity

Risk capacity refers to the maximum amount of risk an organisation is able to assume given its current level of resources, before breaching constraints determined by regulatory capital and liquidity needs (FSB, 2013). As a measure of an organisation’s financial strength in risk taking (IRM, 2011; Sabato, 2009), risk capacity provides the decision makers with a clear limit for taking risks (Carothers, 2011; Hillson and Murray-Webster, 2012; Shortreed, 2010). This study finds that risk capacity is a key risk appetite consideration for both case organisations, as the desired level of risk taking needs to be set within the scope of available resources. This supports the practitioner argument that risk appetite must always be set at a level within the risk capacity (FSB, 2013; Hillson and Murray-Webster, 2012; Lam, 2014), as a breach in capacity would seriously undermine the organisation’s financial viability as well as damaging the reputation (EY, 2010; Rittenberg and Martens, 2012).

Despite the recognition that risk capacity is important to risk appetite, the literature is inadequate in explaining how risk capacity could influence the risk appetite. This study addresses this limitation and identifies a relationship between risk capacity and risk appetite. While risk capacity is traditionally seen as a constraint for risk appetite, as it imposes a limit on the organisation which cannot be exceeded (FSB, 2013; Hillson and Murray-Webster, 2012; Lam, 2014), a stronger and larger risk capacity may positively drive an organisation to take more risks. Informants argued that an increase in the organisation’s risk capacity should result in an increase in risk appetite, as the organisation is expected by its stakeholders to exploit that extra capacity in order to generate more rewards.

However, this positive association between risk capacity and risk appetite might be contingent upon the risk propensity of the key decision makers,

especially the BoD and the CEO. Informant P02A (p. 148) suggested that the positive association is likely to be the case if the decision makers are overall risk-neutral or risk-seeking; but if the decision makers are risk-averse, an increase in risk capacity may have no impact on the risk appetite, or even lead to a decrease in the risk appetite. This is because increasing risk capacity might place extra pressure on a risk-averse decision maker, who would feel a heightened responsibility towards safeguarding the organisation's resources, therefore resulting in an even more conservative attitude towards taking risks.

The account of informant P02A (p. 148) also highlights a need to take into account the overall risk propensity of the decision makers when considering the effect of risk capacity on risk appetite. This influence of decision-maker risk propensity on the relationship between risk capacity and risk appetite is further discussed on p. 234 (section 5.3)

*Tertiary 'internal standards, process, and communication' factor –
Risk reporting*

In the aftermath of financial crisis, the reporting of key risks that an organisation is exposed to has gained an increased attention from corporate governance regulators (Tong, 2013), many of whom have made risk reporting an essential requirement in their official corporate governance guidance (FRC, 2014; FSA, 2011; Weydert, 2010). One of the key purposes of risk reporting is to better communicate the organisation's risk profile and assess its ability to manage those risks, so that the shareholders are better informed about whether to (continue) invest in the organisation (Linsley and Shrives, 2005; Palenchar and Heath, 2007). As Deumes (2008) and Fuller and Jensen (2002) argued, being transparent about the risks can prevent severe damage to the reputation and long-term viability of an organisation. Also, by regularly reporting the risks to the shareholders and other stakeholders, it is hoped that an organisation can become more aware of its risks as well as be more effective in devising strategies for managing those

risks (Harwood *et al.*, 2009). In this sense, risk reporting can improve an organisation's quality of risk management.

Nevertheless, putting the organisation's risk profile under public scrutiny could also make the decision makers more prudent in future risk taking, because the stakeholders will be more effective in monitoring the organisation and better positioned to sanction the organisation if the risks are not satisfactorily managed (Deumes, 2008; Linsley and Shrives, 2005). In this regard, risk reporting might hinder an organisation's willingness to take risks.

However, whilst a minority of informants in this study embraced the idea that risk reporting undermines the risk appetite, many argued that risk reporting tends to encourage an organisation to take more risks. The main reason is that frequent reporting provides the decision makers with more clarity of the organisation's risk exposure, so they are assured that major risks of the organisation are well recognised and understood, therefore are more confident in effectively managing those risks. This heightened confidence will in turn lead to an increase in the organisation's willingness to take risks.

Despite this positive link between risk reporting and risk appetite, data analysis indicated that, overall, risk reporting is not viewed as an important business activity in both case organisations. Although Linsley and Shrives (2005) and Tong (2013) argued that greater risk reporting could provide an organisation with access to cheaper and easier finance, in this study risk reporting seems to have been perceived as a resource-draining regulatory requirement, which not only takes a great amount of time and efforts to meet, but also offers little tangible value for the organisation. This issue of cost has been recognised by Botosan (1997) and Deumes (2008) as the key obstacle for organisations to undertake risk reporting. Another reason explaining the little importance of risk reporting could be that the case organisations are concerned about their unique information regarding risk management being learnt by their competitors (Deumes, 2008). Overall, this

study suggests that the intended purpose of risk reporting from regulators may not be effectively realised in practice.

5.2.1.5 ‘Information and communication systems’ factors

Primary ‘information and communication systems’ factor – Transparency of actions

Corporate transparency refers to the extent to which relevant and reliable information about an organisation, such as its performance, governance, business model and strategy, is available to its external stakeholders (Bushman, 2015; Jayaraman and Kothari, 2013). The literature on the effect of transparency on organisational risk taking suggests that transparency tends to undermine an organisation’s willingness to take risks (Dhouibi *et al.*, 2016; Houston *et al.*, 2010; Nier and Bauman, 2006). This seems to be related to the so-called ‘monitoring effect’, where increased transparency provides stakeholders with more information about the organisation, so that they can better monitor its performance and scrutinise the organisation’s decisions (Jayaraman and Kothari, 2013; Leuz *et al.*, 2009; Wang *et al.*, 2015), and impose sanctions if necessary (Deumes, 2008; Linsley and Shrives, 2005). This fear of receiving negative stakeholder reactions tends to discourage the decision makers from making risk-taking decisions (Dhouibi *et al.*, 2016), therefore leading to a lower risk appetite.

Although a few informants acknowledged the possibility of this negative association (P04A; P05A), the majority of informants argued for a positive relationship between transparency and risk appetite. It is believed that higher transparency would facilitate the quality and speed of information flowing across the organisation, providing the decision makers with assurances that the organisation’s risks are properly recognised and managed. This leads to an increase in decision-maker confidence regarding risk taking and consequently an enhanced willingness to take risks. For example, the quote of informant P01A on p. 155 illustrated this point.

The notion of increased transparency resulting in a better understanding of the organisation's risk profile as reflected in the above quote is well noted in the literature. It has been highlighted that increased information disclosure in the organisation could lead to improved risk identification and management practices (Linsley and Shrives, 2005; Palenchar and Heath, 2007; Tong, 2013), thus significantly reducing the likelihood of the organisation in taking careless risk decisions (Bourgain *et al.*, 2012; Hirtle, 2007; Wang *et al.*, 2015). As such, the finding highlights the importance of promoting transparency to ensure appropriate risk appetite.

An emerging issue is that demonstrating transparency also involves ensuring important information is always made available to internal members who also participate in organisation's risk decision making. Failure in being transparent to all decision makers could not only hinder the quality of risk decisions but also undermine employee morale and trust in the organisation. This is inferred from the account of informant P04A on p. 156.

Tertiary 'information and communication systems' factor – Degree of access to information

In the highly chaotic, competitive and dynamic business environment, decision makers need quality information to make risk decisions (Pirson and Turnbull, 2011; Rubin and Rubin, 2013). As different organisations have different abilities to gain, retrieve and process information (Bhatta, 2003), managers are often faced with incomplete or inaccurate information when making risk decisions. Thus, the ability to access reliable information in a timely manner is critical (Goodman, 1993). Wang and Yuan (2011) found that access to complete and relevant information is a prerequisite for high-quality risk management in the construction industry. Better access to information can not only provide decision makers with quality and relevant data, but also reduce intuition-based decisions and boost decision maker confidence (Rubin and Rubin, 2013).

This study finds a mixed effect of access to information on risk appetite. While organisation A advocates the positive association between access to information and risk appetite as suggested by Bhatta (2003), organisation B argues that risk appetite could be impeded, because enhanced access to information might prolong the decision-making process and also make it more difficult for decision makers to reach consensus, therefore leading to a reduced willingness to take risks. This negative association between access to information and risk appetite might depend on the organisation's ability to process information and more importantly, to filter out irrelevant information. The ability to find relevant information in an efficient manner has been demonstrated as a key determinant of the quality of risk decisions (Zheng and Prislin, 2012). Without the ability to quickly find relevant information, enhanced access to information can only provide the decision makers with a large amount of information that not only confuses the decision makers and slows down the decision making process, but also reduces decision quality.

5.2.1.6 'Perception of the environment' factors

Tertiary 'perception of the environment' factor – Perceived level of risk in the environment

This study finds that the perceived level of risk in an organisation's external environment is a 'less important' risk appetite factor for both organisations. This finding is surprising, because the 'perception of the environment' is an essential component of an organisation's 'living composition' and is also considered to partly determine an organisation's behaviour (Maula, 2006). It also contradicts to previous studies (Sitkin and Pablo, 1992) suggesting that 'risk perception' is a crucial determinant of an organisation's risk behaviour.

Regarding how this factor influences risk appetite, informants agreed that it is negatively related to risk appetite, i.e. the higher/lower the perceived risk, the lower/higher the risk appetite. This negative association is however incompatible with much of the literature on 'framing effect' (Kuhberger *et*

al., 1999; Roszkowski and Snelbecker, 1990; Tversky and Kahnemann, 1981), where a positive perception (low level of perceived risk) reduces individual risk propensity while a negative perception (high level of perceived risk) increases risk propensity.

5.2.2 Decision-maker factors that shape risk appetite

In addition to organisational factors, the consideration of risk appetite will not be appropriate without taking into account the characteristics of an organisation's top decision makers and their unique governance features. These decision-maker factors belong to the 'boundary elements' component within the 'living composition' model, connecting the organisation and its internal mechanism with the wider external environment (Maula, 2006). Section 5.2.2.1 discusses these decision-maker factors.

5.2.2.1 'Boundary elements' factors

Primary 'boundary elements' factors – EC risk propensity and CEO risk propensity

Inspired by the upper echelon theory (Hambrick and Mason, 1984), which assumes that an organisation's strategic decision making is largely influenced by the personal attributes of its leaders (Baird and Thomas, 1985; Bromiley and Rau, 2016; Das and Teng, 2001), it is reasonable to expect that the collective risk propensity of an organisation's top decision makers, most notably, BoD, and EC, play a vital role in determining the organisation's risk appetite (Baird and Thomas, 1985; Bhatta, 2003; Pablo and Javidan, 2002).

Broadly in line with this expectation, this study finds that the collective risk propensity of the EC and the individual risk propensity of the CEO are two critical factors that positively drive an organisation's risk appetite. As informant P02A argued on p. 165, the CEO and other senior decision makers are instrumental in driving an organisation's risk appetite.

More specifically, data analysis suggests that the individual risk propensity of the CEO plays an even more important role than that of EC in determining the risk appetite. While the central role of CEO in organisational risk decision making is often observed in the literature (Belghitar and Clark, 2012; Kraiczy *et al.*, 2015), allowing the CEO too much power could lead to excessive risk-seeking decisions being made (Lewellyn and Muller-Kahle, 2012).

Compared with the CEO and the EC, the study finds that the influence of BoD (which is often seen as the top decision-making body in an organisation) in determining an organisation's risk appetite is rather lower. Whilst the literature proposes that the BoD should determine the organisation's risk appetite (FRC, 2014; IRM, 2011; Rittenberg and Martens, 2012), it has been found that both case organisations had delegated this task to the CEO and the EC. This is because the CEO and the EC are considered as being closer to the organisation than the BoD, hence they have better knowledge of the organisation and are better positioned to make informed decisions. This is reflected in the quotes of informants P05A (p. 166) and P06B (p. 167).

As such, the organisation's risk appetite is collectively determined by the EC in accordance with their collective risk propensity, and then put forward by the CEO to the BoD for approval. In this regard, this 'approved' risk appetite partially reflects the EC's and the CEO's risk propensity. While the BoD may have different views towards the 'proposed' risk appetite, it was argued that they rarely challenge the CEO, even though the BoD disagrees with the CEO and has authority to disapprove the proposal. Apart from the reason that BoD does not have the same depth of knowledge as the CEO regarding the organisation, it is also because the BoD is wary of '*crossing the line between overseeing and running the company*'. As informant P05A explained:

‘There is a very fine line between running the company and overseeing the running of the company. If they [the BoD] stops something the CEO wants to do, almost by definition, they are running the company.’ (P05A)

Overall, the finding that it is the top management team (i.e. the EC), rather than the BoD, plays a central role in driving an organisation’s strategic decision making contributes to the emerging literature on the role of top management team (Chen, *et al.*, 2010; Sahaym, *et al.*, 2016; Wright *et al.*, 2007). Nevertheless, given that EC has more intimate knowledge of the organisation than the BoD and the fact that the BoD is reluctant to challenge the executives, leaders of an organisation need to understand that this ‘shift’ in decision-making authority (i.e. from the BoD to the EC) may render the organisation overly aggressive and takes more risks than it probably should be, as evidenced in the financial services industry (McNulty *et al.*, 2013). Further, given the corporate governance requirements that the BoD needs to exercise effective oversight upon the executives (Pathan, 2009), it appears that both case organisations’ BoDs are not effectively fulfilling this particular responsibility.

Primary ‘boundary elements’ factor – Performance-based remuneration

Comprising mostly cash bonuses and stock options (Chien *et al.*, 2013; Murphy, 1999), performance-based executive remuneration is often used in large corporations to resolve the agency problem of misaligned interests between management and shareholders (Zalewska, 2014). The original rationale is that because the management is risk averse, offering performance-based rewards could encourage them to take more risks and maximise potential return on investment. Performance-based executive remuneration has been proved to be a useful tool to drive an organisation’s financial performance in many industries (Bebchuk and Fried, 2006; Scholtz and Smit, 2012), including the hospitality industry (Barber *et al.*, 2007).

It has been found that both case organisations offer performance-based remuneration to their EC members. In fact, in both organisations this type of reward is a key factor that increases the organisation's risk appetite. '*It is just human nature that people are drawn towards rewards*', noted by informant P08B. This finding is consistent with many studies in the executive compensation literature where a positive relationship is found between managerial remuneration and firm risk taking (Baixauli-Soler *et al.*, 2015; Coles *et al.*, 2006; Eisenmann, 2002; Sanders and Hambrick, 2007).

Informants recognise that whilst this type of remuneration often leads to an increase in organisational performance, it could also induce unnecessary risk taking. This is because considerable bonuses are rewarded to EC members for achieving a short-term hotel development target, which is usually in the form of a quarterly signings number or a growth percentage. Consequently, the executives tend to become overly focused on achieving the target, therefore neglecting other crucial aspects of hotel growth, such as the credibility of the hotel owner, the specific location of the hotel and the political and economic prospects of the market. As a result, hotel development projects might show various problems during the development phase and may eventually fail to convert into actual openings. For example, informant P07B explained on p. 168 how the offering of bonus payments to the 'business development' team had resulted in trouble for other departments of the organisation.

The quote of informant P07B (p. 168) highlights that the current design of executive remuneration policy in hotel companies may be flawed. Such a remuneration mechanism may have far-reaching consequences on the organisation. Informant P05A argued on p. 168 that ill-designed remuneration could create an inappropriate expectation or culture that focuses on short-term performance targets rather than long-term lasting success of the business.

The above short-sighted and target-oriented remuneration design is similar to the one in the financial services industry (Bebchuk, 2010; Shlomo *et al.*,

2013), which has been blamed for causing careless and excessive risk-seeking behaviour in organisations (Bannier *et al.*, 2013; Efin *et al.*, 2015; Marcinkowska, 2014). Moreover, this form of governance practice has been found to have detrimental effect on the long-term innovativeness of an organisation (Honoré *et al.*, 2015). Agreeing with this view, informant P02A argued that remuneration should be designed in a way which rewards ‘quality strategic growth’, meaning that the hotel growth should be in the organisation’s strategic markets, with the preferred brands, and the company-owner relationships are still of good quality after a number of years. This is consistent with the argument of Callan and Thomas (2014) that apart from financial performance, an organisation’s social performance also needs to be assessed in order to determine executive remuneration.

Secondary ‘boundary elements’ factor – BoD risk propensity

BoD risk propensity has been widely recognised by practitioners (Allan *et al.*, 2011; Hillson and Murray-Webster, 2012; IRM, 2011) and scholars (Bhatta, 2003; McNulty *et al.*, 2013; Pablo and Javidan, 2002; Pathan, 2009) as a factor that could influence an organisation’s risk appetite. Because risk appetite is essentially a corporate-level decision that needs to be made by the BoD (Alix *et al.*, 2015; Gontarek, 2016), the collective risk propensity of the BoD members will inevitably shape the types and amount of risks that the organisation chooses to take and avoid. In other words, the BoD is likely to align the organisation’s risk appetite with its own risk propensity.

Confirming the argument that BoD risk propensity is positively associated with the risk appetite (Allan *et al.*, 2011; Bhatta, 2003; Hillson and Murray-Webster, 2012; IRM, 2011; McNulty *et al.*, 2013; Pablo and Javidan, 2002; Pathan, 2009), this study goes further and finds that BoD risk propensity can be a key determinant of an organisation’s risk appetite. As informant P01A noted, ‘*BoD’s risk propensity – that is the whole risk appetite*’. This is because BoD is seen as the top decision-making authority in an organisation, and even if it does not directly participate in the process of determining the risk appetite (i.e. delegating the task to the CEO and EC), the BoD still

needs to endorse the proposed risk appetite, and it has the power to disapprove any element that is not consistent with its own risk propensity.

Nevertheless, in different organisational contexts, the role of BoD risk propensity on risk appetite may be less influential. While organisation A regarded BoD risk propensity as ‘key’, organisation B considered it as ‘less important’. Even in organisation A there are informants (P05A; P07A; P08A) who believed that BoD risk propensity is not an important consideration. This finding suggests that the importance of BoD risk propensity to risk appetite is context-specific, therefore further extending the literature.

A main reason explaining the limited importance of BoD risk propensity to risk appetite in organisation B is that there is a lack of BoD input in determining the risk appetite. In organisation B, BoD is detached from the CEO and the EC. In other words, none of the EC members sits on the BoD of the organisation. This type of BoD composition is rather different from the conventions (Berger *et al.*, 2014; Chen, 2009), where the CEO at least is also a BoD member. As such, the organisation B’s strategic decisions, including the risk appetite, are made solely by the CEO and the EC, with limited input from the BoD.

Secondary ‘boundary elements’ factors – BoD diversity and EC diversity

Despite a recent study by Sila *et al.* (2016) where no relationship is found between BoD’s gender diversity and firm risk taking, much empirical research into the composition of BoD and its effect on firm risk taking suggests that BoD diversity could be negatively related to risk appetite (Goodstein *et al.*, 1994; Gulamhussen and Santa, 2015; Lenard *et al.*, 2014). This is because higher diversity among the BoD members tends to create conflicting views about engaging risky activities, thus limiting the organisation’s ability to make timely decisions (Goodstein *et al.*, 1994).

In line with Goodstein *et al.* (1994), Gulamhussen and Santa (2015) and Lenard *et al.* (2014), informants confirmed that increasing BoD diversity provides many differing and even contradictory perspectives, thus making it more difficult for the BoD members to reach a consensus in risk decisions and consequently decreasing the organisation's risk appetite. However, data analysis also revealed that this negative relationship between BoD diversity and risk appetite could change into 'positive', if most BoD members have recently experienced success in their risk-taking decisions. In other words, even if BoD members are highly diverse in gender, background, and professional experience, the particular outcome of the recent risk-taking experience of the BoD members may determine the relationship between BoD diversity and risk appetite. For example, informant P07A illustrated this point on p. 170 by referring to some companies that have recently experienced major successes or failures.

Whilst BoD diversity has been found as an important factor influencing organisation A's risk appetite, it is 'less important' for organisation B. Although the reason is unclear from the interviews, it is likely to be related to the particular importance of the case organisation's BoD in strategic decision making. It has been discussed previously (in the section on BoD risk propensity) that BoD plays a key role in strategic decision making of organisation A, whereas in organisation B the effect of BoD on decision making is rather negligible. Moreover, it is clear that in organisation A the value of BoD diversity is recognised. Several informants (P02A; P03A; P04A; P07A) noted that the wealth of valuable experiences offered by a diverse BoD could help to tackle groupthink, an issue commonly seen in homogeneous BoDs (Berger *et al.*, 2014; McNulty *et al.*, 2013).

While BoD diversity is of little importance in organisation B, the potential benefits of diversity are well noted by the executives. Rhode and Packel (2010) argued that diversity in leadership could improve the quality of the decisions due to the consideration of different views. Consistent with this argument, the *diversity of the EC* emerged as a key risk appetite consideration in organisation B. Informants P01B and P06B particularly

noted that ensuring a certain level of diversity in the EC team, which the organisation has been lacking, can significantly improve informed decision making and provide a balance to one-sided, extreme decisions. This is captured in the quote of informant P01B on p. 170. This quote also indicates that EC diversity could positively or negatively shape the risk appetite, depending on whether the previous risk appetite is overly conservative or aggressive. This finding confirms, but also extends the literature on top management team composition and firm risk, which exclusively suggests a positive relationship between the top management team diversity and the firm's risk-taking propensity (Berger *et al.*, 2014; Kor, 2006).

Secondary 'boundary elements' factor – CEO emotion

Due to a belief that CEO is the top decision-making figure of an organisation (Barker and Mueller, 2002; Herrmann and Datta, 2005), the effect of CEO characteristics on firm risk taking has generated considerable research interest. One common characteristic investigated is CEO emotion. Since an individual's emotional state has been proved to influence his/her risk propensity in psychology research (Forgas, 1995; Grable and Roszkowski, 2008; Isen and Geva, 1987; Isen and Patrick, 1983; Kliger and Levy, 2003), it is expected that CEO emotion would also shape the organisation's risk appetite.

Confirming this expectation, CEO emotion is found to be an important risk appetite consideration in organisation B. Informants (P01B; P03B; P06B) indicated that the emotional state of the CEO is likely to provide a temporary 'push' or 'pull' to the organisation's risk appetite. A positive emotion would enhance the risk appetite while a negative emotion would decrease the risk appetite. This implies a positive relationship between CEO emotion and risk appetite, which is consistent with Delgado-Garcia and Fuente-Sabate (2010) and Yuen and Lee (2003). While this emotional input from the CEO has resulted in many successes in organisation B, it was also recognised that this emotional 'pull' or 'push' to risk appetite could be irrational, which might lead to poor quality decisions being made.

Compared with organisation B, it is found that CEO emotion is unlikely to have any effect in organisation A. This finding suggests that the influence of CEO emotion on risk appetite is organisation-specific, hence extending the literature. One underlying reason is due to the professionalism of the CEO, as argued by informant P01A, is that *‘the CEO is a mature and professional individual who clearly understands that decisions need to be made free from emotional influence’*. Another reason is that organisation A has a comprehensive decision-making structure in place that is designed to minimise emotional influence on decisions. The structure comprises the BoD, the EC and many independent committees, all of which is facilitated by a *‘consensual decision-making culture’* (P02A).

Tertiary ‘boundary elements’ factor – Ability to sense

Confirming the argument of Maula (2006) that an organisation’s sensing ability determines its behaviour, this study finds that an organisation’s ability to sense changes in its internal and external environment does influence the risk appetite. Although a stronger ability to sense is more likely to be associated with stronger decision-maker confidence (and appetite) in covering potential risks, a number of informants noted that it is possible for an organisation to become overly sensitive to risky information, which might lead to risk-averse decisions. This suggests that the relationship between ability to sense and risk appetite is an inverted U-shape.

In addition, informants from both case organisations did not view this factor as an important consideration for risk appetite. Given that the ability to sense is a crucial risk propensity indicator at the individual level (Al-Ajmi, 2008; Grable and Joo, 2004; Grable and Lytton, 1999; Pavic and Vojinic, 2012; William and Narendran, 1999), this finding is different from the expectation.

5.2.3 Environmental factors that shape risk appetite

Alongside with Organisational Factors and Decision-maker Factors, the effect of an organisation's external environment on its risk appetite cannot be overlooked. The case study has identified nine environmental factors, eight of which may have significant impacts on risk appetite. The nine factors are discussed below.

5.2.3.1 'Interactive processes and communication with the environment' factors

Primary 'interactive processes and communication with the environment' factor – Shareholder demands

According to both academic literature (García-Kuhnert *et al.*, 2015; Mishra, 2011; Nguyen, 2012) and practitioner literature (Carothers, 2011; Chatzinikoli and Toner, 2009; COSO, 2009; EY, 2010; Govindarajan, 2011), the shareholder demands could exert an important influence on an organisation's risk appetite. This argument is confirmed in this study, as both case organisations rated 'shareholder demands' as a key factor of risk appetite. While this is partly due to the fact that both organisations are publicly listed companies and thus they have to take risks to drive shareholder value, several informants pointed out that their organisation has explicitly set 'driving shareholder value' as one of its key organisational objectives. In explaining the key role of shareholder demands, informant P05A argued:

'Its influence [on risk appetite] is quite high because obviously we are here to drive value for our shareholders. That's what we are here for as a company. So if they want us to move in a certain way we certainly have to take that on board.' (P05A)

Regarding how shareholder demands influence risk appetite, the findings suggest a mixed view. While most informants argued that shareholders would push the organisation to take more risks in order to drive the return

on investment, informant P06B pointed out that this objective can also be achieved via reduced risk taking by limiting operational expenses and/or halting ongoing risk-seeking projects. As she argued:

‘If our shareholders push us to be more profitable, we will probably have to cut down on operations cost, which means that we will take less risk. We will control every penny. We will probably get rid of some of the human resources. We will drive the profitability through cutting cost. So we will retract rather than push forward. From an operations perspective, we will hold off all the innovative ideas and just drive business to existing clients, which is not really taking risks.’
(P06B)

This finding, therefore, offers contradictory evidence to the traditional argument that shareholder demands increases an organisation’s willingness to take risks (García-Kuhnert *et al.*, 2015; Mishra, 2011; Nguyen, 2012).

Additionally, data analysis reveals that the essence of shareholder demands, which is often to increase shareholder value, may change. John *et al.* (2008) explained that shareholders are becoming increasingly conscious of the challenging environment, thus are not always demanding the organisation to take more risks. Informant P05A added that under certain circumstances such as adverse economic conditions or that the organisation has recently experienced reputational damage, shareholders may demand the organisation to be more prudent and risk-averse in its strategic decision making, so that the return on investment can be protected. This finding also supports Diez-Esteban *et al.* (2016), who found that shareholders discourage firm risk taking when facing a lack of growth opportunities.

Secondary ‘interactive processes and communication with the environment’ factor – other stakeholders demands

Within the context of international hotel industry, the importance of other stakeholders’ (not including shareholders) demands (typically including hotel owners/property developers, employees, guests, etc.) to strategic decision making has been increasingly recognised (Lo, 2013; Teng *et al.*,

2015). Risk appetite practitioners (Carothers, 2011; Govindarajan, 2011) have argued that the demands of other stakeholders in an organisation could significantly influence its risk appetite. This study finds that while the influence of other stakeholders' demands on risk appetite is acknowledged by both case organisations, the significance of this factor on risk appetite is organisation-specific. Specifically, other stakeholders' demand is a key risk appetite factor for organisation B but appears less important in organisation A. According to informants P01A and P07A, this is because organisational risk taking decision is the result of an internal analysis among top decision makers, thus whilst the demands of stakeholders are heard, they would not necessarily impact on strategic decisions.

Lo (2013) suggested that hotel owners are the most important stakeholder group for international hotel companies. This is supported in this study, as hotel owners have been identified as one of the most important stakeholders, in addition to the shareholders. While informants from both case organisations claim that hotel owners' demands are valued and considered in decision making, the two case organisations seem to have reacted differently in the past in addressing those demands. In particular, organisation A tended to transform their demands into specific strategic objectives before taking actions, therefore the demands of hotel owners indirectly influenced the risk appetite. Organisation B, however, tended to quickly react upon the hotel owners' demands and as a result directly influenced the risk appetite. The two approaches of organisation A and organisation B indicate two different levels of willingness towards risk taking, which are in line with the evaluation of the case organisations' analysts, which suggests that organisation A is relatively risk-averse and organisation B is more risk-seeking.

While it is difficult to suggest that which approach is more superior, both approaches could result in negative organisational consequences. For instance, organisation A, which converts demands into new strategic objectives, might fail in addressing hotel owners' demands in a timely manner, and possibly instil a bias in hotel owners that their demands are

overlooked, therefore damaging trust and the organisation's reputation. Similarly, although organisation B can satisfy its hotel owners promptly, reacting too quickly may cause the organisation to deviate from its current course, therefore resulting in a failure to achieve the original objectives and also damaging the reputation. Therefore, organisations need to strike a balance between addressing stakeholder demands and achieving original strategic objectives.

5.2.3.2 'Triggers' factors

Primary 'trigger' factor – Level of regulation

Designed to set standards and prevent organisations from unlawful and improper conduct, regulations have been well documented as a critical factor that reduces an organisation's willingness to take risks (Baird and Thomas, 1985; Cohen *et al.*, 2013; Harwood *et al.*, 2009; Pablo and Javidan, 2002). In line with the literature, this study finds that the level of regulation is negatively related with the risk appetite. For example, informant P03A explained on p. 158 how a recent regulation had affected the risk appetite of the organisation.

However, two informants (P02B; P07B) argued that some key decision makers do not always take regulations into account in considering risk appetite. This is because the international hotel industry is considered as relatively less regulated than other industries, and most regulations are localised and focused on constraining improper risk behaviour at the operational level other than at the strategic level. This is consistent with the hospitality literature since previous studies have primarily focused on employment (Lv *et al.*, 2012) and anti-smoking regulations (Simons *et al.*, 2016).

The quote of informant P03A (p. 158) also explains why regulations are a critical consideration for risk appetite, because failure to comply will not only expose the organisation to potential penalties, it will also result in

reputational damage, leading to reduced trust from stakeholders and a decrease in share price. This is consistent with the arguments of several empirical studies on regulation and firm risk (e.g. Cohen *et al.*, 2013; Devers *et al.*, 2008; Konishi and Yasuda, 2004).

Primary 'trigger' factor - Rewards

Individual risk taking literature has highlighted that the expected rewards of risk taking can have a significant positive impact on a person's risk propensity (Holt and Laury, 2002; Kachelmeier and Shehata, 1992; Post *et al.*, 2008). This is especially the case when the expected rewards are large in scale (Kachelmeier and Shehata, 1992). Based on the living organisations thinking, this study assumed that expected rewards would have a significant, positive influence on an organisation's risk appetite. This assumption is confirmed in the case study, which finds that rewards are a highly important factor influencing the risk appetite for both organisations. For example, the quote of informant P06A on p. 225 indicates that rewards play an instrumental role in ensuring the long-term viability of an organisation, which is consistent with Mahto and Khanin (2015). Another reason underpinning the importance of rewards is that in the process of seeking the rewards the organisation will often have to commit a considerable amount of resources (informant P07A), which makes it even more important for the organisation to secure the expected rewards.

Regarding the influence of rewards on risk appetite, both case organisations indicate that they are willing to take greater risks if the expected return on investment is greater. This suggests a positive relationship between rewards and risk appetite, implying that organisations and human beings appear to behave in a similar way.

Secondary 'trigger' factor - Economy

Economy, which comprises both the general global economic condition and the specific economic condition of a particular market, could exert a

significant positive influence on an organisation's risk appetite. This is because the economic conditions, to a large extent, are positively associated with the demand for the products and services offered by an organisation (Corgel and Woodworth, 2012; Slattery, 2009), which in turn affects the organisation's performance and the achievement of strategic objectives. While the effect of global economy on an organisation's risk appetite cannot be overlooked, this study finds that the economic condition of a particular market seems to have a bigger impact on an organisation's risk appetite. This is particularly the case for organisation B, where a long-term favourable economic outlook in a particular market tends to create a sense of optimism in the minds of the decision-makers, thus offsetting the threats presented by other risks (e.g. political instability and poor infrastructure) and lead to an increased willingness to take risks.

However, economy, regardless of its scope, appeared 'less important' to organisation A. This could be explained from a few perspectives. Since the defining feature of the organisation's business model is that a significant proportion of the organisation's hotels are operated under a franchising agreement, the organisation receives a relatively stable income from a fairly 'fixed' set of fees paid by the franchisees. Compared to other operation modes such as management contract, leasing or owning, the revenue generated from franchising appears to be least affected by the economic fluctuations of a particular market or on a global scale (Alon *et al.*, 2012; Xiao *et al.*, 2008). As such, changes in economy may have little impact on the organisation's financial performance and would usually not trigger a change in the risk appetite.

Another reason could be related to the prominent global presence of the organisation. Compared with organisation B, organisation A has a considerably wider presence across the world, which effectively mitigates the influence of a particular 'local' economy on the organisation's performance. In other words, the impact of a 'weak' economy in a particular market could be complemented by a 'stronger' economy in another market.

Therefore, the overall influence on the economy on the organisation's willingness to take risks is rather insignificant for organisation A.

Secondary 'trigger' factor – Level of competition

Practitioners and academics have long recognised that the level of competition among rivals could influence an organisation's willingness to take risks. However, the literature has presented mixed evidence towards how competition influences the risk appetite. For example, while Boyd and De Nicolo (2005) and Martinez-Miera and Repullo (2010) advocate the traditional idea that competition induces further risk taking, Liu *et al.* (2012) and Yeyati and Micco (2007) proved that competition reduces organisational risk-taking activities. Further, Tabak *et al.* (2012) found an inverted U-shaped relationship between competition and bank risk, suggesting that the relationship between competition and risk appetite depends upon the level of competition.

In line with the literature, the case study shows that the level of competition in the industry does affect an organisation's risk appetite. In particular, competition has been found to positively affect an organisation's risk appetite, therefore supporting Boyd and De Nicolo (2005) and Martinez-Miera and Repullo (2010). Informants argued that increasing competition motivates the organisation to constantly search for new markets and new ways of operation, which in turn help the organisation to stay in competition with other key industry players. This is compatible with Liu *et al.* (2012) who argued that competition encourages organisational efficiency and information sharing, and creates a sense of urgency to continuously improve oneself.

Regarding the importance of competition to risk appetite, data analysis shows that whilst it is a highly important factor for organisation B, it is less important for organisation A. This could be explained by the market position of organisation A in comparison with other competitors. In this study, organisation A is a market leader in the international hospitality

industry and generally outperforms other competitors. The pressure from the competition, while being felt by the organisation, might not be strong enough to propel more risk-seeking actions. Conversely, organisation B is positioned as a market follower, whose strategic decision making is contingent more upon the actions of its leading peers. If organisation B is not actively responding to the competition, its market position is more likely to drop. This finding indicates that the importance of competition to an organisation's risk appetite is negatively moderated by its competitive position.

Secondary 'trigger' factor – General business development trend

The general business development trend, which in this study refers to a specific shift of business focus from mature to emerging markets observed in industries other than the hospitality, emerged from the interviews as a strong factor that induces risk taking for organisation B. As informant P01B explained:

'I think one and I'm not exactly sure how to word it - what are other companies doing. Not only hotel companies but in general, what is the trend towards development strategy. If we're talking about risk appetite, for a while, the past five to ten years there's been this huge focus on emerging markets. It's emerging markets, emerging markets, and emerging markets. Those kinds of things did it; I think maybe subconsciously for a lot of people, it influences our risk appetite to a huge degree.' (P01B)

While it is apparent that many industries have noticed and capitalised on the opportunities presented in the emerging markets over the past two decades (Yoder *et al.*, 2016), the decision of organisation B to follow this trend and adopt a similar approach to business development appears to be based on the specific circumstances of the organisation. In this study the two case organisations had large differences in market share and global presence. Compared with organisation A, who was the market leader on a global scale, it was more challenging for organisation B to grow in the mature and well-developed markets. However, emerging markets, with its long-term

economic outlook, provided a relatively untapped territory for organisation B. Nevertheless, organisation B needed to increase its appetite for risk in order to accommodate the uncertainty brought by higher levels of political instability and less-developed infrastructure in emerging markets. This increased risk appetite has consequently rewarded organisation B with a strong competitive advantage in those emerging markets compared to its larger peers such as organisation A.

5.2.3.3 ‘Experimentation’ factors

Secondary ‘experimentation’ factor – Need for innovation

Several scholars have linked innovation and firm risk in the organisational risk taking literature. Despite the argument of Baysinger and Hoskisson (1989) and Chen (2009) that innovation is the outcome of an organisation’s risk appetite, as only firms that are willing to take risks would innovate, increasing evidence such as Ottenbacher and Harrington (2010) has shown that the need for innovation is likely to encourage an organisation to take risks. This is possible in the international hotel industry, because companies are under increasing pressure to innovate its product and services in order to remain competitive (Fraj *et al.*, 2015; Thomas and Wood, 2014). Since innovation requires a considerable investment of financial and human resources, an organisation needs to have a higher willingness to accept the risks involved, therefore it was expected that the need for innovation would be positively associated with the risk appetite.

The finding demonstrates that the impact of the need for innovation on risk appetite is organisation-specific. In particular, the need for innovation is an important factor that positively drives the risk appetite of organisation A, but not for organisation B. In explaining the importance of the need for innovation, informant P02A indicated on p. 164 that innovation is a business imperative to become long-term sustainable. This idea is consistent with the arguments of Chen (2009) and Ottenbacher and Harrington (2010), who

stressed that an organisation needs to constantly innovate its product and services through R&D activities, or it risks falling behind in the competition.

Nonetheless, the need for innovation might only increase an organisation's appetite for risks in certain areas, for example, the area of information technology. The appetite for risks in other areas, such as guest relations, is unlikely to be influenced by the need for innovation. This is also captured in the quote of informant P02A on p. 164.

5.3 Interrelationships of risk appetite factors

The case study identifies six interrelationships between different risk appetite factors. In Figure 5.1 (p. 185), these interrelationships are presented using blue arrow lines connecting the specific components where the related factors reside. The existence of these interrelationships may have implications for analysing an organisation's risk appetite. The following briefly summarises these six interrelationships:

- The ambitiousness of objectives is positively related with the risk propensity of the organisation's key decision makers, which may be the BoD, the CEO or the EC. For example, in an organisation (e.g. organisation A) where the BoD has the '*ultimate responsibility in setting the company's objectives*' (P01A), the higher is the BoD risk propensity, the more ambitious are the strategic objectives, and thus the higher is the risk appetite. If the top decision makers of an organisation are the EC rather than the BoD, which is the case of organisation B, the risk propensity of the EC and the CEO is likely to influence the ambitiousness of objectives.
- The ambitiousness of objectives is also influenced by the demands of shareholders and other key stakeholders. For example, informant P08A implied that the requirements of an organisation's activist shareholder and other key stakeholders such as regulators and

employees must be taken into account when determining the organisation's strategic objectives. The ambitiousness of the objectives needs to be at a level that reflects the desired level of risk taking by shareholders and other key stakeholders. This suggests that the ambitiousness of objectives may mediate the relationships between shareholder's and other stakeholders' demands and risk appetite.

- The performance targets that an organisation set are influenced by the organisation's objectives and the level of ambitiousness. Informant P02A indicated that an organisation's objectives, once set by the BoD, will be broken down and translated into measurable performance targets for various departments and functions of the organisation to benchmark against. Typically, more ambitious objectives are more likely to lead to higher performance targets. Therefore the organisation may need to increase its risk appetite to meet the targets. This could indicate that performance mediates the relationship between the ambitiousness of objectives and risk appetite.
- An organisation's risk capacity is positively influenced by the amount of leverage. Because risk capacity concerns an organisation's financial strength in relation to taking risks, taking on more debts (thus resulting a higher leverage) would mean that the organisation has more financial capital available for risk taking, which enhances the risk capacity.
- The positive relationship between risk capacity and risk appetite may be moderated by the risk propensities of the organisation's key decision makers. The positive relationship between risk capacity and risk appetite tends to hold true when key decision makers are at least 'modest' decision makers. If the decision makers are risk-averse, the positive relationship between risk capacity and risk appetite may become insignificant (informant P08B) or even change into negative,

as informant P02A noted: *‘maybe I am rare. I am risk-averse. Giving me more resources would make me even more nervous, strangely.’*

- The risk propensity of key decision makers may have a moderating effect on the positive relationship between risk culture and risk appetite. In particular, if key decision makers are risk averse, a stronger risk culture may lead to the identification of more risks that are uncomfortable for the decision makers, therefore forcing them to reduce the organisation’s risk appetite.

The above interrelationships add a new dimension to the risk appetite literature. They particularly provide empirical support to Baird and Thomas (1985), who suggested that factors influencing an organisation’s willingness to take risks are not independent from each other but are interrelated. The understanding of these interrelationships could facilitate a better analysis and articulation of an organisation’s risk appetite. Since the interrelationships in organisation A are more complex than organisation B, and that organisation A has a relatively lower risk appetite than organisation B, it could be conjectured that the level of complexity of the interrelationships is negatively associated with the risk appetite. In other words, the more complex are the interrelationships, the lower is the risk appetite. The reason is that more complex interrelationships indicate a greater number of mediating and/or moderating relationships, which complicates the mechanism that underpins the risk appetite and adds more uncertainty for decision makers when determining appropriate level for risk taking. As decision makers are generally risk-averse (Kim and Buchanan, 2008; Seo and Sharma, 2014), increasing uncertainty in risk appetite consideration is likely to result in a lower willingness to take risks, hence a lower risk appetite.

It is worthwhile to note that the interrelationships were not explicitly questioned during the case study. They emerged from the interviews focused on eliciting factors that shape an organisation’s risk appetite, rather than understanding their interrelationships. Hence it would be inappropriate

to claim that the six interrelationships are exhaustive. As suggested in the conceptual framework (Figure 2.4, p. 74) and the ‘stage one’ framework (Figure 4.2, p. 132), there might be hidden interrelationships that have not yet been empirically revealed.

5.4 Summary

This chapter discussed and interpreted the primary research findings in the light of the literature. Based on a synthesis of the empirical evidence and the literature, a unified definition of the risk appetite concept, derived from the ‘end user’ perspective, was proposed. A new perspective to view risk appetite, i.e. the ‘black hole’ analogy, was identified and its implications for articulating an organisation’s risk appetite statement were discussed. In addition, a ‘living organisation’ framework of factors that shape an organisation’s risk appetite was developed (Figure 5.1, p. 185). The framework illustrates what and how a set of ‘organisational’, ‘environmental’ and ‘decision-maker’ factors shape an organisation’s risk appetite, as well as the relative importance of each individual factor to the risk appetite. The interrelationships between different factors were also identified. The framework offers a robust conceptual tool for the understanding and analysis of an organisation’s risk appetite. While the factors that influence risk appetite are common across organisations, their importance to the risk appetite and the ways in which they influence the risk appetite are likely to be different, leading to different organisations exhibiting different risk appetites.

CHAPTER SIX

CONCLUSION

6.0 Introduction

This chapter presents the conclusion of the study. It explains how the research aim and research objectives have been achieved, followed by the articulation of this study's original contribution to knowledge. The limitations of the study are then discussed and the recommendations for future research are suggested. The chapter closes with a brief personal reflection of the research journey.

6.1 Research aim and objectives

As stated in Chapter One, the Introduction, this study aimed to identify and evaluate the factors that shape an organisation's risk appetite in the context of international hotel industry. To achieve this aim, five research objectives were identified:

The first objective of the study was to understand the concept of risk appetite and its theoretical underpinnings by critically reviewing the generic risk taking literature and the specific risk appetite literature. This objective was accomplished in Chapter Two, the Literature Review. Constructs that are fundamental to risk appetite, such as risk and risk taking, and the key theories underpinning risk taking at both individual and organisational levels, were examined. The current state of risk appetite knowledge was evaluated and the gap for this study was highlighted.

The second objective of the study was to identify the factors that could shape an organisation's risk appetite by analysing both the practitioner and academic literature and drawing upon the 'living organisations' thinking. This objective was also accomplished in Chapter Two, the Literature Review. Several streams of research, i.e. the literature on risk appetite (both

from an academic and a practitioner's perspective), the business literature on organisational risk taking, and the psychology literature on individual risk taking, were critically analysed to identify the factors that might shape the risk appetite at both organisational and individual levels. Identified factors were mapped onto the 'living composition' model to construct a conceptual framework of factors that shape an organisation's risk appetite.

The third objective, to explore the factors that shape an organisation's risk appetite and evaluate their importance by conducting qualitative empirical research, was accomplished in Chapter Three, the Methodology, and Chapter Four, the Findings. A two-stage fieldwork was carried out from January 2013 to November 2015. Stage one was conducted with ten internationally recognised risk appetite experts using unstructured in-depth interviews. These experts were risk management consultants who provided a generic business (and non-hospitality-specific) perspective on risk appetite, therefore enabling the researcher to validate and enrich the conceptual framework. This revised framework (Figure 4.2, p. 132) was subsequently used in stage two (a case study of two international hotel companies with seemingly different risk appetites) to inform the investigation of risk appetite factors. A total of sixteen semi-structured interviews (eight in each organisation), complemented with a paper questionnaire, were conducted with corporate executives and risk managers to explore the key factors that shape their organisation's risk appetite. As a result, two case-specific frameworks of factors that shape the risk appetite were developed (Figure 4.4, p. 141 and Figure 4.5, p. 142).

The fourth objective of the study was to explain the factors that shape an organisation's risk appetite. This objective was accomplished in Chapter Five, the Discussion. To achieve this objective, the two case-specific frameworks (Figure 4.4, p. 141 and Figure 4.5, p. 142) were incorporated and the factors that shape the risk appetite were organised into 'primary', 'secondary' and 'tertiary' categories based on their relative significance to risk appetite. Each factor was then explained as to why it is 'important' or 'less important' to risk appetite and how it shapes the risk appetite. This

discussion was presented in the context of the literature to highlight congruencies as well as seeking for explanations for contradictory and unexpected findings.

The final objective of the study, to make a theoretical contribution to knowledge by proposing a framework for the analysis of an organisation's risk appetite in the context of hotel industry, was accomplished in Chapter Five, the Discussion. A 'living organisation' framework of factors that shape an organisation's risk appetite was proposed (Figure 5.1, p. 185), which is the main contribution to knowledge of this study.

6.2 Contribution to knowledge

6.2.1 Contribution to theory

Over the last decade the business world has witnessed an increasing use of the term 'risk appetite' (Alix *et al.*, 2015; Baldan *et al.*, 2016; Gontarek, 2016). In particular, this term has become a popular topic among corporate governance regulators, risk management professionals and senior corporate decision makers. However, research on risk appetite is still at an early stage, and current practitioner-dominated literature often provides inconsistent views (Bromiley *et al.*, 2015; Gontarek, 2016). There is a need to alleviate the confusion and identify a convergence of diverse opinions. In response to the calls for more risk appetite research from an increasing number of academics (Aven, 2013; Baldan *et al.*, 2016; Bromiley *et al.*, 2015; Lam, 2014) and practitioners (CRO Forum, 2015; Hillson and Murray-Webster, 2012; IRM, 2011; Willis, 2016), this research explored the factors that shape an organisation's risk appetite in the context of the international hotel industry. To the researcher's knowledge, this study is among the first empirical works on risk appetite conducted in the business management field and certainly the first in the context of the international hotel industry. It is hoped that the findings (and any subsequent publications) can stimulate more scholarly attention towards risk appetite. In particular, this research makes the following three theoretical contributions to knowledge:

1) *Provides a unified definition of risk appetite*

A key issue that undermines the development of risk appetite research is the lack of a universally agreed definition (Baldan *et al.*, 2016; Bromiley *et al.*, 2015). Although a wide range of definitions have been provided by regulators, management consultancies and other professional risk management organisations, there remains no clear consensus on the meaning of risk appetite (Baldan *et al.*, 2016; Berlinger and Varadi, 2015). For example, existing definitions of risk appetite offered in the literature can be broadly grouped into several key themes: the (aggregated) amount or level of risk an organisation is prepared to take (Alix *et al.*, 2015; Gontarek, 2016), the willingness of an organisation in taking risks (Aven, 2013), the organisation's internal desire to take risk (Hillson and Murray-Webster, 2012), and a written document of the types and amount of risk an organisation is willing to take (Baldan *et al.*, 2016; Berlinger and Varadi, 2015). In addition, existing risk appetite definitions in the literature are almost exclusively proposed by organisations (e.g. regulators and risk consultancies) promoting the concept, and there is no definition that is developed from the conceptualisations of the actual 'end users' of risk appetite (Bromiley *et al.*, 2015), i.e. corporate executives and risk managers. Providing a unified risk appetite definition from the end-user perspective, therefore, would be a theoretical contribution to knowledge.

Through in-depth interviewing with the corporate executives and risk managers, this study finds that the end users' understanding of risk appetite varies considerably within and across case organisations (section 4.2.2.1). In other words, individual participants do not have a shared understanding of the concept of risk appetite. However, the range of definitions provided by the participants are broadly consistent with the main themes in the literature, such as the 'amount (or level) of risks' (Alix *et al.*, 2015; Gontarek, 2016), the 'willingness to take risks' (Aven, 2013), and the 'organisation's internal desire to risk taking' (Hillson and Murray-Webster, 2012). This means that any individual definition provided in the literature can only offer a partial

explanation of risk appetite, therefore indicating a need to synthesise existing themes and develop a unified definition of risk appetite. In addition, this research demonstrates that organisations have a variable risk appetite, which is in constant change depending on changes in the organisation's internal and external environments. This reflects the 'dynamic' nature of risk appetite, suggesting that the concept of risk appetite has an embedded 'time' dimension and only concerns an organisation's desire for risk taking at a particular point in time. Incorporating this 'time' dimension with the key themes of the literature, a unified definition of risk appetite is provided (p. 181):

Risk appetite refers to a dynamic representation of an organisation's intrinsic desire for risk taking at a particular point in time in order to achieve the organisation's current strategic objectives.

Compared to previous risk appetite definitions in the literature (e.g. Aven, 2013; Hillson and Murray-Webster, 2012; Lam, 2014), the above definition provides a more practice-grounded conceptualisation of risk appetite, based on the real-life accounts of the 'end users'. By incorporating their perspective with key themes of the literature, it is hopeful that this unified risk appetite definition can effectively alleviate the conceptual confusion experienced by practitioners and researchers.

2) Identifies a novel perspective to view risk appetite – the 'black hole' analogy

Due to the elusive nature of risk appetite and the lack of consensus on its meaning, different analogies, particularly Hillson and Murray-Webster's (2012) 'physical appetite for food and drink' and IRM's (2011) 'fight-or-flight response', emerged in the literature to help practitioners better understand the concept. While these two analogies provide interesting angles to approach the risk appetite concept, they are derived from conceptualisations of management consultants, and therefore do not reflect how the real 'end users', i.e. corporate executives and risk managers,

approach the concept. Such a limitation was also noted by Bromiley *et al.* (2015), who called for risk appetite research from the end users' perspective.

Addressing this limitation, this research identified a novel risk appetite analogy from the perspective of corporate participants, namely the 'black hole' (section 5.1.3). This analogy suggests that an understanding of the risk appetite concept can benefit from the study of Astronomy, in that an organisation's risk appetite can be viewed as a 'black hole' within the universe. Because the 'black hole' is invisible and difficult to measure in a direct manner, scientists attempt to achieve an understanding by examining its impact on the surrounding objects, e.g. how certain planets move. In the same vein, one can understand risk appetite by examining its impact on the organisation, which is reflected in a variety of behavioural displays of the organisation, i.e. the choices that the organisation makes for its entirety and for its components or aspects of operation, such as setting targets and strategy, delegation of authority, capital investment criteria, allocation of resources, and structure of governance. The choices an organisation makes in these aspects provide valuable insights about the effects that risk appetite has on the organisation, and enable decision makers to establish an understanding of the acceptable range of risk-taking limits and/or situations where a particular choice becomes inappropriate. An accumulation of this knowledge for a prolonged period of time can eventually contribute to a more comprehensive understanding of the organisation's risk appetite.

In conclusion, the 'black hole' analogy makes a distinct theoretical contribution to risk appetite literature by providing a new perspective to approach this rather elusive concept. The various behavioural aspects of risk appetite suggested by corporate participants (section 5.1.3) can be used to identify meaningful risk appetite indicators/measures, which are currently missing in the literature.

3) *Proposes a 'living organisation' framework of factors that shape an organisation's risk appetite*

While the use of the term 'risk appetite' in the business world has seen an exponential growth over the last decade (Alix *et al.*, 2015; Baldan *et al.*, 2016; Gontarek, 2016), limited research has been undertaken on this topic. Existing risk appetite literature appears fragmented and mainly concentrates on the definition (Aven, 2013; Felton, 2010; Gontarek, 2016) and the ways in which a risk appetite statement can be articulated (Alix *et al.*, 2015; Baldan *et al.*, 2016; Lamanda and Voneki, 2015). However, little attention has been given to investigate the factors that shape an organisation's risk appetite. While some practitioner publications (CRO Forum, 2015; FRC, 2014; Hillson and Murray-Webster, 2012; IRM, 2011) have identified a number of possible factors (e.g. risk capacity, objectives, risk management capability, etc.), it remains unclear as to how and why those factors influence an organisation's risk appetite. To date there has been no academic study that formally investigates the factors that shape an organisation's risk appetite. Addressing this gap in the literature, therefore, can help academics and practitioners better understand and analyse the concept of risk appetite. It also helps to raise the awareness of regulators that an organisation's risk appetite is not 'a static picture' (Baldan *et al.*, 2016), but is in constant change, and therefore needs to be monitored and regularly reviewed.

Incorporating the case study findings with the literature, a 'living organisation' framework of factors that shape an organisation's risk appetite was developed (Figure 5.1, p. 185). The framework illustrates what and how a set of 'organisational', 'environmental' and 'decision-maker' factors shape an organisation's risk appetite. Organisational factors include those relevant to an organisation's internal characteristics, functions, processes and systems, which are further categorised into 'identity', 'knowledge', 'strategy', 'information and communication system', 'internal standards and processes' and 'perception of the environment' factors. Environmental factors contain external forces residing in the organisation's business

environment, as well as specific processes and/or procedures an organisation engages with in order to interact with its environment, which are further classified as ‘triggers’, ‘experimentation’ and ‘interactive processes and communication with the environment’ factors. Decision-maker factors, which are also known as ‘boundary elements’, encompass those relating to the characteristics of an organisation’s top decision makers as well as the design of their remuneration. Overall, the ‘living organisation’ framework (Figure 5.1, p. 185) extends current risk appetite literature and provides a robust means for understanding and analysis of risk appetite.

One distinct feature of the ‘living organisation’ framework (Figure 5.1, p. 185) is the explicit indication of the significance of individual factors to risk appetite, expressed through the categorisation of ‘primary’, ‘secondary’ and ‘tertiary’ factors. ‘Primary’ factors are key or highly important factors shaping an organisation’s risk appetite. They are the prime considerations when understanding and/or analysing an organisation’s risk appetite. ‘Secondary’ factors are also key or highly important factors, but their significance tends to be organisation-specific. In other words, a secondary factor that is highly important for one organisation may appear of little or no importance for another. As such, secondary factors need to be analysed after the consideration of primary factors. ‘Tertiary’ factors are those that influence the risk appetite, but the level of significance is much less than primary and secondary factors. Therefore, tertiary factors need to be considered after primary and secondary factors. Overall, this importance-based classification provides a more structured approach for prioritisation and analysis of factors that shape an organisation’s risk appetite.

Another key feature of the ‘living organisation’ framework (Figure 5.1, p. 185) is the identification of six interrelationships between different risk appetite factors (section 5.3). The factors relevant to these interrelationships include ‘ambitiousness of objectives’, ‘CEO risk propensity’, ‘EC risk propensity’, ‘BoD risk propensity’, ‘shareholder demands’, ‘other stakeholder demands’, ‘risk capacity’, ‘risk culture’, ‘performance’ and ‘leverage’. The interrelationships demonstrate that factors that shape an

organisation's risk appetite are not independent from each other but are closely related. The relationship between a particular factor and the risk appetite may be moderated or mediated by another factor. An understanding of these interrelationships can facilitate a better analysis of an organisation's risk appetite.

6.2.2 Implications for practitioners

As highlighted in the preceding section, this study advances the risk appetite literature by making three key contributions to theory. For practitioners (e.g. corporate executives and risk managers), these theoretical contributions are crucial in helping them better understand the concept and find ways to document and monitor their organisation's risk appetite. The key implications for practitioners are articulated as below:

- 1) Provides a consensual definition of risk appetite to alleviate confusion among practitioners*

One of the key challenges that risk managers and corporate executives often encounter in relation to risk appetite is the lack of a consistent understanding about the concept throughout their organisations (Baldan *et al.*, 2016; CRO Forum, 2015; Lam, 2014). This inconsistency is also found in this study as the case study participants expressed a range of different conceptualisations of risk appetite. Current risk appetite literature has also been ineffective in resolving this issue as different contributors appear to be insisting on their own definitions (e.g. Aven, 2013; Hillson and Murray-Webster, 2012; IRM, 2011). By synthesising various conceptualisations of the case study participants, this research provides an integrated, consensual definition of risk appetite (p.181) that is firmly grounded in the viewpoints of the 'end users'. Corporate executives and risk managers may adopt this definition and communicate it across all levels of the organisation to achieve a consistent understanding. Corporate governance regulators (such as the FRC and the FSA), standards organisations (such as the ISO and the BSI) and professional risk management bodies (such as the IRM and the RIMS)

can use the concept to deliver a consistent message in their future guidance on risk appetite.

2) Offers an approach for the identification of risk appetite measures

Apart from the definition inconsistency, the invisible and elusive nature of risk appetite itself has made the concept extremely difficult for practitioners to comprehend (CRO Forum, 2015; Lam, 2014). Due to the increasing regulatory pressure, a key challenge concerning today's risk managers is to articulate their organisation's risk appetite statement (Baldan *et al.*, 2016; Gontarek, 2016). The 'black hole' analogy of risk appetite offers a structured approach to tackle this challenge. Corporate executives and risk managers can use this analogy to identify key components and/or operational aspects of their organisation where the impact of risk appetite can be observed and possibly measured, such as setting targets and strategy, delegation of authority, capital investment guidelines, allocation of resources and structure of governance, and then to record the decision choices that are made in these components/aspects on a regular basis. An accumulation of these observations over time can contribute to an understanding of the types and amount of risk that are deemed appropriate for the organisation in various components/operational aspects, i.e. the risk appetite measures, so that appropriate quantitative limits and/or qualitative narratives can be articulated for the risk appetite statement.

3) Highlights the need for organisations to update their risk appetite statement on a regular basis

The increasing regulatory pressure for companies to produce a documented risk appetite statement (Baldan *et al.*, 2016; Gontarek, 2016), combined with the growing consultancy and academic methodologies on constructing such a statement (e.g. Alix *et al.*, 2015; FSB, 2013; Dillon *et al.*, 2011), can lead to a misconception among corporate executives and risk managers that the risk appetite statement is the final 'outcome'. It appears that many regulators, consultants and academics (e.g. Baldan *et al.*, 2016) have

overlooked the idea that an organisation's risk appetite is not static, but continually changes according to what is happening in the organisation's internal and external contexts (Georgousopoulou *et al.*, 2014; Gontarek, 2016; Lam, 2014).

The findings of this research, in particular the 'living organisation' framework of risk appetite factors (Figure 5.1, p. 185), confirm the 'dynamic' nature of risk appetite. Informants revealed that risk appetite has an embedded 'time dimension', meaning that the types and amount of risk that are comfortable to take as stated in the risk appetite statement is likely to be different at a later point in time. The continuous use of the 'out-of-date' risk appetite statement can therefore result in inappropriate decisions. Corporate governance regulators, consultants and academics need to recognise this issue and explicitly communicate to organisations that a documented risk appetite statement is not the 'end product' of the risk appetite process; instead, organisations must closely monitor their risk appetite and regularly update the risk appetite statement in the light of internal and external changes.

4) Provides a basis for developing a risk appetite monitoring system as well as a tool for modifying the risk appetite

The 'living organisation' framework (Figure 5.1, p. 185) demonstrates the significance and the ways in which a combination of 'organisational', 'decision-maker' and 'environmental' factors shape an organisation's risk appetite. It provides corporate executives and risk managers with a basis to design a risk appetite monitoring system, where the individual factors depicted in the framework can be used to monitor internal and external changes that could trigger an immediate review and update of the risk appetite statement.

Equally, the 'living organisation' framework (Figure 5.1, p. 185) also offers the opportunity for the development of a managerial toolkit, which can be used by risk managers, EC or BoD to proactively modify their

organisation's risk appetite. Once all factors of the framework are validated in the context of an organisation, risk managers and corporate executives should be able to identify particular factors over which the organisation has control. Because the importance of the factors and the ways in which they shape the risk appetite are identified, those 'controllable' factors can be seen as 'levers' that allow decision makers the freedom to either enhance or weaken the organisation's risk appetite. Some example 'levers' may include: strategic objectives, performance targets, leverage, risk capacity, transparency of actions, performance-based remuneration and CEO emotions. Having the ability to proactively alter its own risk appetite to an appropriate level is critical to offset any undesirable risk appetite fluctuations caused by uncontrollable changes, particularly those arising from the organisation's external context.

6.2.3 Contribution to methodology

A key methodological contribution of this study is the use of the 'living organisations' thinking and the 'living composition' model (section 2.4) to analyse the concept of risk appetite, which suggests a new way of thinking for investigating organisational behavioural phenomenon and its underlying mechanism. Although risk appetite was an under-researched topic at the organisational level, similar concepts were studied more extensively at the individual level. The 'living organisations' thinking (de Geus, 1997; Tracy, 1994; Vancouver, 1996; Wheatley and Kellner-Rogers, 1995; Wolfe, 2011) provided a robust conceptual basis that enabled the study of organisational-level concepts to build on individual-level constructs. The findings of this study also confirmed the structure depicted in the 'living composition' model (Maula, 2006) as a robust reflection of the practice. The model has broad applicability as a descriptive schema for organisations, which can serve as a guide for designing and interpreting empirical organisation studies, as well as for facilitating formal comparison of findings across studies.

6.3 Research limitations

Acknowledging and discussing the limitations of a study provides the researcher with the opportunity to reflect on the research process and consider ways in which the research could be improved (Altinay *et al.*, 2015; Creswell, 2008; Merriam and Tisdell, 2015). It also enables the researcher to recognise the extent to which the research findings can be generalised to other contexts (Gummesson, 2014; Mertens, 2014; Willig, 2013).

A limitation that is often discussed in qualitative research concerns the size and/or diversity of the research participants (Merriam and Tisdell, 2015; Myers, 2013). Perhaps a similar argument could be that this research has relied on a relatively small number of participants in both case organisations. Although it might be better to interview more participants, the actual size (eight participants in each organisation) of the participants in this research was the best result the researcher could achieve. Concerning the diversity of the participants, while it would be helpful to interview the top decision makers in both organisations, i.e. the CEO, CFO and the Chairman of the BoD (due to the belief that those people are directly involved in the strategic decision making and are likely to have a more insightful view of the organisation's risk appetite), in reality it was learnt that access to those top decision makers was impossible for the researcher. Even the research participants themselves were unable to approach those leaders directly, despite their seniority within the organisation. Additionally, whilst it might be useful to interview participants from operating functions other than Risk Management (in organisation A), access to those people was very much at the discretion of the 'gatekeeper', who unfortunately thought that colleagues in other functions do not possess the required depth of knowledge on risk appetite.

Another traditional limitation of qualitative research is the limited generalisability of the research findings (Mertens, 2014; Willig, 2013). Due to the scarcity of risk appetite research, an exploratory, qualitative research

approach was chosen to achieve the research aim. Whilst this qualitative study offers a rich description of the research phenomenon, one can argue that the research findings are only valid in the specific research context (i.e. two international hotel companies), thus cannot be generalised to other contexts, such as to other hotel companies, or to companies in other industries (e.g. financial services, healthcare, energy, etc.). However, both organisations in this research are publicly listed multinational companies; although they operate in the hotel industry, they are essentially no different with other companies in the stock market, since all companies have highly similar corporate structures and are subject to the same market rules and regulations. In addition, all companies in the stock market, regardless of the nature of their industries, are often cross-compared by financial analysts and investors using the same measures. This suggests that it is possible the findings of this research can be generalised to other international hotel companies and also to companies of other industries. In particular, the proposed risk appetite definition, the ‘black hole’ analogy and the ‘living organisation’ framework of risk appetite factors (Figure 5.1, p. 185) are generalisable, although the particular influence and the importance of individual factors, as well as the interrelationships may be different across companies and industries.

6.4 Recommendations for future research

This exploratory, qualitative study identified and evaluated the factors that shape an organisation’s risk appetite in the context of international hotel industry, and proposed a ‘living organisation’ framework of risk appetite factors (Figure 5.1, p. 185). A natural progression for future research would be to conduct a large-scale quantitative study to statistically test the framework, either in the hotel industry or in other contexts.

Amid the increasing regulatory demands for organisations to have a documented risk appetite statement, to date effective guidance is still limited to help risk managers and corporate executives complete this task. The

‘black hole’ analogy identified in this research provides a new way of thinking to approach this challenge, through a focus on examining the impacts of risk appetite on the entire organisation and its various components. Future research can employ this ‘black hole’ analogy and seeks to identify the key organisational components/aspects where the impacts of risk appetite are mostly reflected, as well as the specific measures in those components/aspects.

6.5 Personal reflection of the research journey

This research endeavour has taken six years, during which there were smiles, tears and long periods of isolation and endurance. Nevertheless, it has been one of the best six years of my life, during which I was fortunate to have had the opportunity and intellectual freedom to explore and try out a range of approaches for undertaking this research. For instance, the research design of this study has gone through a number of changes. From the selection of research approach, research strategy to the selection of sample, data collection methods, and finally to the data analysis approach, changes were constantly introduced into the study, either by the reflection of myself or based on the advice of the supervisors. Even the layout of the chapters and the indicative word counts had been significantly different throughout the various stages of this journey. While each change meant that more time needs to be added to the overall timeline, I was able to take it positively and see it as a valuable opportunity for me to become an even better researcher, especially if I want to pursue an academic career (which I did proudly).

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Appendix 3.1 Email invitations for risk consultants

(Example 1)

Dear XXX,

My name is Xiaolei (Nathan) Zhang and I am a PhD student at the Oxford School of Hospitality Management, Oxford Brookes University. I am doing a doctoral research on risk appetite and aim to find out the underlying factors that shape an organisation's risk appetite.

At this stage, I have reviewed the relevant literature and am ready to collect data. As a renowned expert and a thought-leader in risk management and particularly in risk appetite, it would be immensely helpful if you could agree to take part in a face to face interview. It will take about an hour and a half. All you need to do is to share your knowledge and experience in defining and articulating an organisation's risk appetite.

The interview may take place either in a public place at your choice, e.g. a cafe, or in your place of work at a mutually convenient date and time. If you allow, the interview will be audio-recorded. Full interview transcript will be sent to you via email for final approval and/or amendments in 48 hours after the interview. You will also receive a copy of the summary of findings when the research is completed, which might be useful for you. All information you provide in the interview will be anonymous and strictly confidential, and your name and your organisation will not be identified anywhere in the research.

If you are interested, please let me know by either email or telephone (my details are provided below). I will then contact you to arrange a mutually convenient time and venue for the interview. I would also be grateful if you could forward this email to anyone that you think might be interested in this research.

I appreciate that you taking time to read this email. Should you have any further queries, please do not hesitate to contact me.

Best regards,

Nathan

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(Example 2)

Dear YYY,

As you might have already learn from XXX, I am conducting my doctoral research into risk appetite at Oxford Brookes University. XXX has agreed to do an interview with me in January to share his perspective on risk appetite. Similarly, I would also like to invite you to an interview to talk about your understanding of the factors which shape an organisation's risk appetite.

The interview may take place either in a public place at your choice, e.g. a cafe, or in your place of work at a mutually convenient date and time. If you allow, the interview will be audio-recorded. Full interview transcript will be sent to you via email for final approval and/or amendments in 48 hours after the interview. You will also receive a copy of the summary of findings when the research is completed, which might be useful for you. All information you provide in the interview will be anonymous and strictly confidential, and your name and your organisation will not be identified anywhere in the research.

Would you be interested to spend an hour or so to take part in my research?

Kind regards,
Nathan

Appendix 3.2 Information sheet for risk consultants

You are being invited to participate in a research project, exploring the factors that influence the risk appetite of an organisation, and to take part in a face to face interview on this topic. Before you decide whether or not to take part, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully.

What is the purpose of the study?

The study aims to identify and evaluate the factors that shape an organisation's risk appetite. Risk appetite is broadly defined as the amount and types of risk an organisation is willing to take in pursuit of its strategic objectives. It has recently been the focus among regulators and regularly tops the business agendas. Latest regulations require that all companies must clearly define and articulate their risk appetite in a formal statement. However, most companies have failed to do so, and one particular reason is believed to be that the factors that influence a company's risk appetite are unknown. Existing views from practitioners seem inconsistent and intuition-based and also need academic scrutiny.

Why have I been invited to participate?

You are invited to participate, because you are a recognised expert in risk appetite and your experience in its articulation are particularly relevant to the study. The perspectives you will provide on developing an organisation's risk appetite will be highly valuable for the next stage of the research as well as the final development of the framework of factors that influence an organisation's risk appetite.

Do I have to take part?

Your participation in the research is entirely voluntary. It is up to you to decide whether or not to take part. If you decide to take part you are still free to withdraw at any time and without giving a reason.

What will happen to me if I take part?

If you decide to participate, you will be invited to join a face to face interview, where you will answer and comment on a number of questions on articulating an organisation's risk appetite and share your knowledge and experience with regard to this topic. The interview will last for approximately an hour and a half. If you allow, the interview will be audio-recorded. Full interview transcript will be sent to you via email for final approval and/or amendments around 48 hours after the interview. The only cost that will incur to you is the time required for the interview. Other than that, it is anticipated that you will not be exposed to any physical, psychological, social, legal or economic risks.

What are the possible benefits of taking part?

Whilst there are no direct benefits of participating in the study, you will contribute on various issues related to the articulation of an organisation's risk appetite. The interview will generate new ideas and create general awareness of the possible factors that influence an organisation's risk appetite. On the completion of the study, a copy of the summary of the findings will be provided to you, which may be useful in your future work.

Will what I say in this study be kept confidential?

All information you provide will be treated as strictly confidential and will be subject to legal limitations. It will be anonymous, and you will not be identified anywhere in the research, unless you give consent to do so. The data generated in the course of the research will only be available to the researcher and will be retained in accordance with the University's policy of Academic Integrity and kept securely in paper and electronic form for the period of up to ten years after the completion of the research, after which it will be destroyed.

What should I do if I want to take part?

If you decide to participate, please express your interest to the researcher by either email or telephone. The researcher's contact details can be found at the end of this information sheet. You will then be contacted by the researcher to arrange a mutually convenient time and venue for the interview. You will also need to sign a consent form, which will be forwarded onto the Chair of the University Research Ethics Committee at Oxford Brookes University.

What will happen to the results of the research study?

The results of the interviews will be used to test and validate the interview questions and the conceptual framework and inform the next stage of the project. The results may also be used in work-in-progress papers that will be submitted to academic and/or practitioner conferences and subsequently to academic and practitioner journals.

Who is organizing and funding the research?

This study is being conducted by Mr. Xiaolei (Nathan) Zhang, currently a PhD student at Oxford School of Hospitality Management, Faculty of Business. The research is self-funded and under the supervision of Professor Conrad Lashley, Director of Research and Consultancy (conradlashley@aol.com, tel: 01159233855) and Dr. Alexandros Paraskevas, Senior Lecturer in Strategic Risk Management (apaskevas@brookes.ac.uk, tel: 01865 483835).

Who has reviewed the study?

This study has been approved by the University Research Ethics Committee, Oxford Brookes University.

Contact for further information

Mr. Xiaolei (Nathan) Zhang, Oxford School of Hospitality Management, Faculty of Business, Oxford Brookes University, Gipsy Lane, Oxford, OX3 0BP
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If you have any concerns about the way in which the study has been conducted, please contact the Chair of the University Research Ethics Committee on ethics@brookes.ac.uk

Thank you for taking time to read this information sheet and consider taking part in the study.

Appendix 3.3 Email invitation for case organisation participants

Dear XXX,

My name is Nathan Zhang and I am a Senior Lecturer in Risk Management within Hospitality and Tourism Industry at Oxford Brookes University.

As you may already know from []'s email, I am in the process of completing my doctoral study, part of which is a case study of [case organisation], which aims to understand the concept of "corporate risk appetite" and the factors that influence it. As an integral part of []'s risk team, it would be great if you could take part in the research by sharing your thoughts and perspectives on this matter. Your participation will make a difference to the risk management community and your thoughts will contribute towards a greater understanding of this often difficult and confusing topic.

In order for you to know more detailed information about this research, I have attached a 'Participant Information Sheet'. Also attached are the questionnaire and the interview questions, if you wish to review them before making a decision whether or not to participate.

Thanks for your time in reading this email and I look forward to hearing from you at your earliest conveniences.

Kind regards,
Nathan

Appendix 3.4 Participant information sheet for case organisation participants

You are being invited to participate in a doctoral research study, exploring the factors that influence a company's 'risk appetite', i.e. the amount and types of risk a company is willing to take to achieve its strategic objectives. Before you decide whether or not to take part, it is important for you to understand why the research is being done and what it entails. Please take time to read the following information carefully.

What is the purpose of the study?

The study aims to identify and qualitatively evaluate the factors that influence a company's 'risk appetite'. So far a list of influential factors has been identified, but the nature of the influence and the relative importance of each factor to risk appetite remain unanswered. I hope with your help the answer will emerge.

Why have I been invited to participate?

You have been invited because your knowledge and experience in managing risk at project and corporate levels are particularly relevant to this study. The insights and perspectives you will provide will be highly valuable for achieving the study purpose and for the final development of a framework of factors that influence a company's risk appetite.

Do I have to take part?

Your participation in the research is entirely voluntary. It is up to you to decide whether or not to take part. If you decide to take part you are still free to withdraw at any time and without giving a reason.

What will happen to me if I take part?

If you decide to participate, you will first need to complete a questionnaire, followed by a face-to-face interview or Skype interview, where you will comment on a number of questions regarding your company's risk appetite. The interview will last around 40 minutes. If you allow, the interview will be audio-recorded. Full interview transcript will be sent to you via email for final approval and/or amendments. The only cost that will incur to you is the time required for completing the questionnaire and the interview. Other than that, I am confident that you will not be exposed to any physical, psychological, social, legal or economic risks.

What are the possible benefits of taking part?

Whilst there are no direct benefits of participating in the study, the questionnaire and the interview will create general awareness and an initial understanding of the possible factors that influence your own company's risk appetite. Once this study is completed, a copy of the findings summary will be provided to you, which may be useful for your work and your company.

Will what I say in this study be kept confidential?

All information you provide will be treated as strictly confidential. It will be anonymous, and you will not be identified anywhere in the research. The data generated in the course of the research will only be available to the researcher and used for academic purposes only. The data will be retained in accordance with the University's policy of Academic Integrity and kept securely in paper and electronic form for the period of up to ten years after the completion of the research, after which it will be destroyed.

What should I do if I want to take part?

If you decide to participate, please contact the researcher directly by either email or telephone, whose contact details can be found at the end of this information sheet. You will then be contacted by the researcher, who will send you the questionnaire and arrange a mutually convenient time for the interview. You will also need to sign a consent form, which will be forwarded onto the Chair of the University Research Ethics Committee at Oxford Brookes University.

Who is organising the research?

This study is being conducted by Nathan Zhang, Senior Lecturer at Oxford School of Hospitality Management, Oxford Brookes University. The study is supervised by Mr. David Bowie (decbowie@brookes.ac.uk, tel: +44 (0) 1865 483890) and Prof. Alexandros Paraskevas, (alexandros.paraskevas@uwl.ac.uk, tel: +44 (0) 20 8231 2279).

Who has reviewed the study?

This study has been approved by the Research Ethics Committee of Oxford Brookes University.

Contact for further information

Nathan Zhang, Oxford School of Hospitality Management, Oxford Brookes University, Gipsy Lane, Oxford, OX3 0BP
Tel: +44(0) 1865 483801 +44 (0) 7544880012 Email: nathan.zhang@brookes.ac.uk

If you have any concerns with regards to the way in which the study has been conducted, please contact the Chair of the University Research Ethics Committee on ethics@brookes.ac.uk.

Thank you for taking time to read this information sheet and consider taking part in the study.

Appendix 3.5 Email invitation for financial analysts

Dear XXXX,

My name is Nathan Zhang and I am a Senior Lecturer from Oxford School of Hospitality Management, Oxford Brookes University. I am working with Professor Alexandros Paraskevas from London School of Hospitality and Tourism, University of West London, on a research project that evaluates the risk behaviour of some of the biggest hotel companies in the world.

We have designed a short questionnaire, based on a study on organisational risk taking propensity by Dr. Ian Harwood and his colleagues from Southampton University, to evaluate a company's risk behaviour (risk-averse, risk-neutral or risk-seeking). As a named analyst for [case organisation], we are really interested in your views on various aspects of []'s risk behaviour. Therefore, we would be grateful if you could kindly complete our questionnaire, which should not take you more than 5 minutes. Your response is completely anonymous.

You can find the questionnaire via <https://www.surveymonkey.com/s/R9DKK9B> . If you have any queries, please do not hesitate to contact either of us. I can be contacted via email nathan.zhang@brookes.ac.uk or phone on 01865 483801. Professor Alexandros Paraskevas can be contacted via alexandros.paraskevas@uwl.ac.uk .Thank you in advance and we look forward to hearing from you.

Best regards,
Nathan

Appendix 3.6 Questionnaire for financial analysts

Company Risk Behaviour Evaluation Questionnaire

This questionnaire is designed to evaluate a company's risk behaviour (risk-averse, risk-neutral or risk-seeking) in its competitive environment. There are 10 risk behaviour attributes, and below is a brief description of each one. Please read the description and complete the questionnaire on the following page.

Risk behaviour attributes	Description
'Risk approach'	Extent to which risks are managed proactively, ranging from reactive 'crisis management' to proactive 'planned management'
'Risk horizon'	Time period between identifying a potential risk and the expected (or actual) realisation of that risk, ranging from 'short term' to 'long term'
'Management style'	Level of management intervention in strategy implementation, ranging from 'micro-management' where the level of intervention is high, e.g. details of implementation are always requested by management, to 'macro-management' where there is minimum intervention and the management tends to delegate responsibilities
'Degree of regulation'	Level of regulation in the external environment the company operates, ranging from 'regulated' to 'unregulated'
'Risk encouragement'	Level of support for risk taking, ranging from 'cautious' where risk taking is generally discouraged or has to be very cautious, to 'copious' where there are plenty of support
'Risk perspective'	Whether the term 'risk' is viewed as having 'negative' or 'positive' connotations by the company
'Risk reviews'	Extent to which risks are frequently updated, ranging from 'static reviews' where risks are only identified and assessed once, to 'dynamic reviews' where identified risks are continuously monitored and updated
'Risk rhetoric'	Nature of language used to communicate potential risks, ranging from 'indirect language', e.g. 'there is a potential of X happening, but if we do Y and Z, it will be minimised', to 'direct language', e.g. 'I've just seen a big risk'.
'Risk incentives'	Level of incentives for risk taking, ranging from 'non-existent' to 'proportionate'
'Risk ownership'	Nature of individual ownership of risks, ranging from 'forced ownership' to active 'voluntary ownership'.

Please indicate your opinion on each risk behaviour attribute for [case company].

Risk behaviour attributes		Positions on the rating scale							
		Very much				Very much			
‘Risk approach’	Crisis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Planned
‘Risk horizon’	Short term	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Long term
‘Management style’	Micro	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Macro
‘Degree of regulation’	Regulated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unregulated
‘Risk encouragement’	Cautious	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Copious
‘Risk perspective’	Negative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Positive
‘Risk reviews’	Static	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Dynamic
‘Risk rhetoric’	Indirect	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Direct
‘Risk rewards’	Non-existent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Proportionate
‘Risk ownership’	Forced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Voluntary

Appendix 3.7 Questionnaire for case organisation participants

An Investigation of Factors that Influence Corporate Risk Appetite

This questionnaire is a part of a doctoral research study being undertaken at Oxford Brookes University. The purpose of the research is to explore the influence of various factors on [case organisation]'s 'risk appetite', i.e. the amount and types of risk that [] is willing to take in order to achieve its strategic objectives. Although it appears that [] does not have a formal risk appetite 'statement', risk appetite manifests itself in many aspects of []'s behaviour. For example, how risk-taking decisions are made; how risks are managed, controlled and governed; what performance targets are set and how resources are allocated; what operating 'lines' the Board and senior management would not wish to cross, and where senior management would need to be notified. This is the company's risk appetite.

As you will see, there are three questions for each factor. Most factors should be self-explanatory; some, where a clarification might be needed, are marked with an asterisk and an explanation is provided at the end of the questionnaire. If you find anything unclear or have any questions, we can discuss it in the follow-up interview, which I would like to record with your permission.

This questionnaire is anonymous and no personal information will be collected. All answers you provide will be treated as strictly confidential and used for academic purposes only.

Thank you very much for taking part.

Nathan Zhang
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Please answer the following questions for each factor by ticking the relevant boxes:

Q1. Does this factor influence []'s risk appetite?¹

Q2. Does an increase in the factor increase or decrease []'s risk appetite?

Q3. How much would you rate the level of the factor's influence on a scale, ranging from 1 'very low influence' to 5 'very high influence'?

Note: Explanations of factors marked with '*' can be found at the end of this questionnaire.

Factor	Question 1		Question 2		Question 3				
	Yes	No	Increase	Decrease	1	2	3	4	5
Company age									
Degree of risk-informed decision making									
Company size									
Extent of executive/Board equity ownership									
Degree of masculinity in leadership style*									
Company debt									
Company self-awareness and knowledge of its environment									
Company's past risk taking experience									
Ambitiousness of strategic objectives									
Company risk capacity*									
Company risk management capability									
Frequency of risk reporting									
Perceived riskiness in industry sector									
Information flow to the Board*									
Transparency of actions*									
Board's propensity to take risk									

¹ If the answer is no, you may move to the next factor; if yes, please continue to answer Q2 and Q3.

Executive committee's propensity to take risk									
CEO's propensity to take risk									
Positive mood of the CEO*									
Board diversity									
Board size									
Management incentives for risk taking									
Board sensitivity to environmental change									
Company alliances									
Number of brands									
Shareholder pressure									
Other stakeholder pressure									
Industry reward-to-risk ratio*									
Global economic growth									
International industry regulation									
International industry competition									
Company overall performance*									
Investment in innovation									

Explanation

Degree of masculinity in leadership	The extent to which a company exhibits the attributes of a masculine leadership, including assertiveness, forcefulness, dominance, competitiveness and being task-oriented.
Company risk capacity	The maximum amount of risks a company can afford to take in order to achieve its strategic objectives. It is often expressed in monetary terms, as the maximum money a company can afford to lose in risk taking.
Information flow to the Board	The speed and quality of strategically relevant information provided to the Board of Directors for decision making.
Transparency of actions	The clarity of corporate-level actions to company stakeholders, in terms of decision making, strategic planning and implementation.
Positive mood of the CEO	The CEO's positive state of mind when taking corporate risk-taking decisions.
Industry reward-to-risk ratio	The proportion of expected reward compared with the risk taken in the hospitality industry.
Company overall performance	A company's performance level relative to key performance targets, which includes but not limited to financial targets.

Appendix 3.8 Interview guide for case organisation participants

Interview Guide for Corporate Respondents

1. **Question:** What is your role in [case organisation]?
Probe: What are your responsibilities? How long have you worked in this company? Where did you work before?
2. **Question:** How do you understand the concept of 'risk appetite'?
3. **Question:** Regarding the questionnaire, are there any factors you find unclear and would like me to clarify?
4. **Question:** Are there any factors which you think influence []'s risk appetite but not listed in the questionnaire? If so, what are they?
Probe: How would they influence the company's appetite for risk? How would you rate their level of influence on a scale?
5. **Question:** What are the most important factors that shape []'s appetite for risk? Why?
6. **Opening:** This study suggests that organisations behave like humans when it comes to risk decision making, hence the term 'risk appetite'.

Question A: In your view, when it comes to risk taking, does [] normally behave like a human i.e. exhibits some degree of spontaneity, unpredictability and perhaps sometimes a little irrationality, or does the company usually operate in an ordered, well-informed and rational manner? Can you give me any examples of the company's behaviour when taking risk decisions?

Question B: In what way is the risk-taking behaviour of [] similar (or different) to human behaviour? Can you explain why this behaviour is similar (or different) to human behaviour?

Question C: Are there any similarities or differences between []'s approach to risk taking and your own approach to risk taking? Why do you think this happens?
7. **Question:** What are the most important factors that shape your own appetite for risk? Why?

Appendix 3.9 Questionnaire response overview for case organisation participants

The table presents an overview of the questionnaire responses. The numbers in columns of Question 1, 2 and 3 indicate the actual number of participants giving that particular answer. The factors are arranged into various ‘bands’ based on the number of ‘YES’ responses in Q1; then within each ‘band’ the sequence of factors is determined based on the ‘means’ of Q3.

Organisation A

Factor	Question 1		Question 2		Question 3					(Q3)		
	Yes	No	Increase	Decrease	1	2	3	4	5	Mode	Median	Mean
Ambitiousness of strategic objectives	8	0	8	0			1	5	2	4	4	4.125
CEO's propensity to take risk	8	0	8	0		1	1	3	3	4,5	4	4
Degree of risk-informed decision making	8	0	7	1		1	2	2	3	5	4	3.875
Company risk capacity	8	0	6	2		1	2	2	3	5	4	3.875
Executive committee's propensity to take risk	8	0	8	0		1	2	3	2	4	4	3.75
Board's propensity to take risk	8	0	8	0		3		3	2	2,4	4	3.5
Management incentives for risk taking	8	0	8	0			5	2	1	3	3	3.5
International industry competition	8	0	8	0		2	4	2		3	3	3
Company risk management capability	8	0	8	1		2	5	1		3	3	2.875
Industry reward-to-risk ratio	7	1	6	1			2	4	1	4	4	3.857
Shareholder pressure	7	1	7	1		2	1	3	1	4	4	3.428
Company overall performance	7	1	5	3		1	4	1	1	3	3	3.286
Company's past risk taking experience	7	1	6	5		2	3	1	1	3	3	3.143
Global economic	7	1	5	2		3	2	1	1	2	3	3

growth												
Company age	7	1	2	5		2	4	1		3	3	2.857
International industry regulation	6	2	0	6		1	2	2	1	3,4	3.5	3.5
Company self-awareness and knowledge of its environment	6	2	5	1			4	2		3	3	3.333
Other stakeholder pressure	6	2	5	3		1	4	1		3	3	3
Board sensitivity to environmental change	6	2	1	5		3	3			2,3	2.5	2.5
Extent of executive/Board equity ownership	6	2	1	5		5	1			2	2	2.167
Perceived riskiness in industry sector	6	2	2	4	3	2	1			1	1.5	1.667
Company debt	5	3	0	5		1		2	2	4,5	4	4
Investment in innovation	5	3	5	0		1		3	1	4	4	3.8
Information flow to the Board	5	3	5	1		2	3			3	3	2.6
Company size	4	4	2	2		1		3		4	4	3.5
Degree of masculinity in leadership style	4	4	4	0	1	1		2		4	3	2.75
Transparency of actions	4	4	2	2		1	2		1	3	3	3.25
Board diversity	4	4	1	4		2		1	1	2	3	3.25
Number of brands	3	5	2	1		2		1		2	2	2.667
Board size	3	5	0	3	1	2				2	2	1.667
Positive mood of the CEO*	2	6	2	0		1		1		2,4	3	3
Frequency of risk reporting	2	6	1	1		2				2	2	2
Company alliances	1	7	1	0		1				2	N/A	2

Organisation B

Factor	Question 1		Question 2		Question 3					(Q3)		
	Yes	No	Increase	Decrease	1	2	3	4	5	Mode	Median	Mean
Ambitiousness of strategic objectives	8	0	8	0				4	4	4,5	4.5	4.5

CEO's propensity to take risk	8	0	8	0			2	3	3	4,5	4	4.125
Company's past risk taking experience	8	0	8	0			3	4	1	4	4	3.75
Executive committee's propensity to take risk	8	0	7	1		2		5	1	4	4	3.625
Board's propensity to take risk	8	0	6	2	1	1	4	1	1	3	3	3
Company self-awareness and knowledge of its environment	8	0	4	4		1	6	1		3	3	3
Management incentives for risk taking	7	1	7	0		1		5	1	4	4	3.833
Company overall performance*	7	1	7	2			3	3	1	3,4	4	3.714
Degree of risk-informed decision making	7	1	5	2			4	2	1	3	3	3.571
Positive mood of the CEO*	7	1	7	0	1	2	2		2	2,3,5	3	3.167
Extent of executive/Board equity ownership	7	1	5	2		4	2	1		2	2	2.333
Company risk capacity*	6	2	5	1			2	2	2	3,4,5	4	4
Shareholder pressure	6	2	5	1			1	4	1	4	4	4
Company risk management capability	6	2	6	0			2	3	1	4	4	3.833
International industry competition	6	2	6	0		1	2	2	1	3,4	3.5	3.5
Board sensitivity to environmental change	6	2	2	4		1	4	1		3	3	3
Transparency of actions*	6	2	5	1		2	1	3		4	3.5	3.167
Perceived riskiness in industry sector	6	2	2	4		1	3	2		3	3	3
Global economic growth	5	3	5	0		2		2	1	2,4	4	3.4
Industry reward-to-risk ratio*	5	3	5	0		1	3		1	3	3	3.2
Other stakeholder pressure	5	3	4	1			4	1		3	3	3.2
Frequency of risk reporting	5	3	4	1		1	3	1		3	3	3
Information flow to the Board*	5	3	3	2		1	2	2		3,4	3	3
Company age	5	3	4	1			5			3	3	3
Number of brands	4	4	3	1			3		1	3	3	3.5
International industry regulation	4	4	0	4		1	1	1	1	2,3,4,5	3.5	3.5
Board diversity	4	4	3	1		1	2	1		3	3	2.667

Company alliances	4	4	2	2	1	1	1	1		1,2, 3,4	2.5	2.5
Company size	3	5	3	0			1	2		4	4	3.667
Degree of masculinity in leadership style*	3	5	3	0			1	2		4	4	3.667
Investment in innovation	2	6	2	0					2	5	5	5
Company debt	2	6	1	1		1		1		2,4	3	3
Board size	1	7	1				1			3	N/A	3
General industry trends (new)	1		1						1	5	N/A	5
Management diversity (new)	1		1	1				1		4	N/A	4

Appendix 3.10 Interview transcript example

N: Thank you for agreeing to take part in my research, and I'd to begin by pointing out that the information you give in this interview will be treated as strictly confidential and yourself will not be identified anywhere in this research. So are you okay with that? [I am happy yes]. So you've just heard about the context of my research and what triggered my research interest, so I think I can just go quickly into the questions. So in terms of the term risk appetite, there are quite a lot of similar but different definitions around within the practitioner community. So I'd like to know what is your definition of risk appetite?

R: Okay so probably I don't have a precise definition on top of my head, but for me risk appetite it something about the tolerance for risk that managers are prepared to accept at a particular time and depending on their objectives. So I think that risk appetite is... I believe it is situational rather than, you know, managers would always have, even an organisation would always have the same appetite for risk. I think it's very dependent on other factors, but at the heart of it is something about the amount of risk that those managers are prepared to tolerate in achieving their objectives.

N: Right okay. So coming to the central research question, what do you think are the factors that determine a company's risk appetite?

R: Okay so, long list. It's got to be something about individuals... So I think that it's something about individuals' propensity to take risk, and we know that there are psychometric tests can help determined that something may be inherently in you and I... that will say generally we are more willing than others to take risk. So something about individual managers propensity to take risk...

N: So how does that can affect the company's risk appetite? How does individual propensity?

R: Because it's the individual propensity of individual senior decision-makers... So I think... my observation would be that... Depending on where the power is in the organisation... So another factor is the aspects of the organisation's culture that might be to do with, for example, hierarchy, power distance, those sort of things. But let's say in an organisation that is hierarchical, then I would expect the individual... the propensity to take risk of the individual managers who are the most powerful, those that are at the top of the hierarchy, to have an influence on an organisation's risk appetite. Because it's really the message is that coming from the top, it is those people who are making the decisions, it's those people who are providing leadership to others, so I would expect those individual perspectives to have an influence, not the only influence, but an influence. And may be more of

an influence in an organisation that is very top-down led, rather than a more consensual culture.

N: So can you give me an example about this kind of individual... So normally what kind of individuals are at the top of an organisation? Is it the CEO or?

R: yeah it could be. Depending on the size of the organisation... yes, I am thinking about one kind that I'm working closely with now. I can't name the client, but I can tell you that the CEO and the top team, the executive committee of the organisation have been pursuing a very aggressive growth strategy for the past may be two or three years. And that growth strategy has been quite countered to the market really, so when some of the competitors have been contracting, when some of the other factors in there in the industry would suggest that may be they should be tolerant to less risk and choose a more cautious approach and they've been pursuing a very aggressive growth strategy, and that is so obscured by the market that has been down almost single handedly the view of the CEO and a handful of people around him. And opposing that was probably career limiting. For people who may be seeing a different risk appetite should be adopted, different thresholds of risk been adopted, and that would be my experience. I can think of other similar situations... Obviously in a public company the board would ideally put the challenges in...put the brakes on that sort of behaviour on behalf of the shareholders. So also in that organisation I've observed, the tension between the board whose risk appetite was less... I think one of the problems with risk appetite is we don't really have units for it... The board would be wanting to accept less risk than may be the executive committee.

N: I would assume that decisions in a company would be made collectively by the board members. What if the CEO who is quite aggressive, but the other members of the board are quite conservative, so what kind of final decisions can be made?

R: Okay so what happens is probably entirely dependent on the culture of the organisation. I'm sure you have reviewed the literature, and you understand something about the organisational culture. Obviously we can't ignore national culture in organisational culture, so I think what is really interesting is when you have...if you are looking at the decisions of risk appetite of national companies, I think that is more understandable than if you are looking at international companies... the one I've got seems to have quite a global presence. Probably you need to go back to what is at the heart of the culture of the organisation and beliefs about challenges for example, so what is the sort of challenges that's going on in the senior management decision-making forums? Is there very healthy challenge and debates and all

options looked at, or is it more closed and why might that be? I think that's a major influence on risk appetite. I also think that the experience of the people is also a major influencing factor on the wider culture, so the experience of company, whether previous decisions seem to have gone well or badly, so patterns of action and often organisations that had a stream of acquisitions and had gone not so well, then it would lead to the managers who have been involved in that to be more cautious.

N: So you think this negative experience will affect the culture of the organisation?

R: Yes and therefore their risk appetite. So to me the culture is, if you are looking at the inputs and outputs, I suppose, I think culture is an input to risk appetite, and I think individual tendencies to take risk are also an input, and within the context about what's happening in industry, [the situation], yeah, what are your competitors are doing, obviously the economic situation is something that's more general, but as you said your research is interested why in the same context firms might behave differently. So I mean the organisational culture thing is a massive topic, there is research being done that looks at how you might determine the cultural... the influences on culture. It seems to me that when you are deciding how much risk to take, then it would appear that healthy debate is really necessary, so if you look at the things that has been done on things like groupthink or other psychological influences on teams, then we know that human beings are largely programmed to fit in, to build consensus and for harmony, most human beings have been actually been in conflict for any period of time is an uncomfortable thing which they try to avoid, but when it comes to decision making organisations actually... how you create working patterns within the group where you can hold the conflict for long enough to have a debate, and I think it is vitally important. And without that aspects of culture being there, my experiences would suggest is that the risk appetite of the most powerful individuals is the most influential factor, if you don't have enough tension. In the senior governance of an organisation, if you look at a publicly listed company, then the controls that offered the tensions between the board and the executive committee is vital, and like I said that would be an area that you research can look at and how that governance is working between the top of the companies... I'm also thinking, does the risk appetite of an organisation, how much of that is influenced from bottom-up rather than top-down. I think probably in some organisational cultures there is more of a bottom-up influence, because it is more consensual culture. So I've done quite a lot of work in companies in Netherlands, the Dutch culture tends to be quite consensual and quite flat, so there's no real sense of... there is a hierarchy but they've got more of an attitudes that everyone is equal, and then you would expect more of in Eastern cultures, eastern parts

of Europe, I guess also far East, much more of a collective attitude culture than the individualistic culture, so I think the whole national culture thing must feed in, but I'm just thinking about all the companies I've worked with or worked in, and I think the huge influence on risk appetite of a company are the personal attitude of senior leaders...

N: Right. I have read the book that you've written with David, in the book you've mentioned that there are three key inputs: individual preferences, the culture, and the situation. But through my literature review I have identified a number of factors that I'd like to go through with you to see whether they influence the risk appetite or not. So would you think the ownership structure of a company have some influence on its risk appetite?

R: I would thought so, yes I guess so. Certainly anything that is publicly listed as we've discussed has got formal governance that provides challenges to decision makers from the boards and the executive committees. In companies that are privately owned, something that are small or family-owned, I would imagine...my experiences are all anecdotal, but in that situation the influence of the decision maker is even more greater than listed companies where there are more checks and balances, and also most of the behaviour of the people have been linked to experiences of the sectors, most of which will have an influence.

N: How about the age of the company? Would you think that has something to do with the risk appetite?

R: I'm sure it probably does, but it's probably not a simple relationship. Because I think there is probably nothing says that old companies that are more or less tolerant to risk... I guess we can all think of companies that have been around for a long time...you know, they've seen recessions come and go, and they've seen things happening, and maybe that would cause them to be... It depends on how well companies have learnt... I know that a number of clients that I've worked with will say that they don't feel that they've really have a corporate memory... So individuals have learnt, has the company also learnt?... So you can have complained that is quite old but it is not learned a lot, so every new set of managers are going through and making the same mistakes over and over, and I think you need to be really careful probably about the age of the company. However in the theory, we hope that with age comes the experience... But we're not necessarily wiser because we are older, are we?

N: Yes maybe "age" is not the proper word, there is another phrase which is the life cycle of the organisation, you can divide an organisation into four life cycles: start-up, growth, mature and decline.

So would companies in any of these stages have different appetite for risk?

R: Yes but I guess nobody has planned to be declining... So I can see that... If you've got a start-up company, probably inevitably you will be over cautious in a start-up... let me take my own company which is a really small consultancy. We probably don't have a huge tolerance for risk for the past 10 years, but that's because we were happy to not grow a lot. It's not been objective to have rapid growth. So I think there's probably a direct... There is a direct relationship between risk appetite and the desire for growth, so when you're starting up you need to take enough risk to be established... do you expect your approach to be like that depending on your aggressiveness of your growth strategy. Although I accept the life cycle of firms, I also don't think that any firm would say "we start-up, we grow, now we are mature and then we will decline". Because actually what people are employed to do is to prevent declining, but to further grow and further consolidation. So I suppose I'm not so... Whilst in theory you can see that it might be quite neat to look at different levels of risk appetite in those four stages, I'm not sure whether those four stages are really in the minds of firms that have passed their initial start-ups. My experiences would say that firms are always making trade-offs between consolidation of what they have, so getting more out of what they have or growing it, and which is why you then will get cycles of investments and cost-cutting and investments and cost-cutting and investments and cost-cutting... So that would be my experience.

N: Okay. A number of people say that the company's objectives can affect its risk appetite, what do you think about that?

R: Yes I think there is a direct input of objectives, because the notion of risk only means something in the context of objectives. So I think it's not possible or helpful to try to disconnect risk or any risk constructs from objectives. There are lots of things that are uncertain... I'm sure David has said this to you, there are lots of things that are uncertain, but there are things that we care about that can affect the achievement of our objectives. So I think what's interesting is that some companies that are better than others at articulating what their objectives are, and you know the amount of risk they are prepared to tolerate around their objectives, so a lot of my consulting work is helping firms to do that, and even some quite large companies are not very good at articulating... You know they've got strategy at the very high level, but when you comes to crisp articulation of what objectives are, and that is more difficult for people, to me that is the first step, so you know if you can be clear about your objectives, then you can be clear about the risks you prepared to take in the achievement of your objectives.

N: for me I think objectives and risk appetite... they can have a two-way relationship. One way is that objectives are a reflection of the company's risk appetite. Companies that are aggressive are more likely to set objectives which are risky; And for some companies may be in times of crisis or bad economy, they might also set some very risky objectives, which might have an influence on their risk appetite. So I think there is a two-way relationship.

R: My prejudice in this is that when we are talking about the constructs at the organisational level, of which risk appetite is one, and you've seen risk appetite as an organisational concept, and objectives is an organisational construct, it is a bit of philosophical question. But it is really the degree of the organisational construct can exist outside of individual perspectives. So is the risk appetite a thing or is it a social construction? If it is a social construction, then who is it socially constructed by, and what is influencing the people who is socially constructioning? So I guess that is what's interesting for me and I do have a prejudice I suppose, this is actually where David and I may differ in the way that we work, so David has got more of a logical, positivist view of the world than I have, I've got more of an interpretivist view of the world, so we have some interesting discussion, for David he likes to have diagrams which has got inputs and outputs, and I see them as more of a mess; and that's what makes it fascinating isn't it? You know you started companies in mind and you've observed through... I don't know your sector, I don't know tourism and hospitality at all. I've never worked in the sector, so maybe that's useful for the discussion, but you would see it as having a bigger appetite for risk than others. And I'd say that how much of that is something about the company as opposed to individuals in the company at that time, and that would be my questions, which are not really answers for you...but reflections, so I agree with you that it is not a one-way, objectives and risks is not one way, it is a very combined and so what would make the group say "well our risk appetite is X". In fact what you need to describe is...If someone said our risk appetite is high, whatever "high" means, I can absolutely accept that if a group of decision-makers are in an agreement in that their risk appetite is high, then they are more likely to set objectives that are challenging targets, than if they see it. So I think there is a two-way street on that.

N: Thank you. How about a company's risk management capability?

R: Okay, really interesting. I think probably it matters a lot, but that there is a maturity thing that maybe a little bit counter-intuitive. So I would say that firms that have got a mature risk management capability will recognise the value of doing risk management. So if they are mature, let's say they're going into a risky investment, e.g. capital investment or acquisition, so if they've got high risk management capability, then they are gonna have data,

because they would value getting data. So they will have done their analysis, and they will update them to base their decisions on. If there is no risk management capability at all, then it is much more likely to be intuitive, that doesn't mean that intuition doesn't form apart...you got data, you've always got data... I think there are somewhere in the middle that in a journey from no capability to good capability, where a lot of my clients are at a potentially dangerous place to be, which is that risk management is seen as being a compliance issue, not a business value sort of issue, so organisations have got into the risk management either through regulation, financial regulation, health and safety regulation, you know I do a lot of working highly regulated industries, oil and gas and mining those sort of places, they would tend to be very very mature in terms of health and safety risk, but then that actually means that risk management is seen as being a compliance issue, and therefore they would not think about risk data if they were to make an investment decision, or they would in a fairly half-hearted way. So I think the risk management capability and maturity of that is a fundamental influence on decisions that organisations take. And my observations are that very few organisations have got true risk management maturity, because they have invested in the mechanics of doing risk management, but have not really made it work for them. So a lot of my consultancy work is with highly regulated companies to get their risk management work for their decision making as opposed to just get them through an audit. So it's almost something that's always get worse before it gets better... In theory we want informed decision-making, so we want risk appetite to be informed, and without any risk management capability then you can't even start.

N: Okay thank you. What about the risk capacity?

R: Well it must have an influence. You saw decision makers have not got an understanding of what their risk capacity is, although the newspapers would tell us that the banks were taking risks beyond their capacity a few years ago, so that's all been in the news. I'm not sure to what degree... I think it's probably impossible that a company that makes money doesn't understand their capacity in terms of its ability to borrow money or to bear a lot of risk in fiscal terms. And it's gets a lot more interesting when its capacity for all sorts of objectives...so unless you are very sophisticated, if you take BP and Deepwater Horizon, at one level you could say the influence on BP in terms of its reputation has been significant, but actually looking back, BP is an organisation is not really... You know all the big oil majors can, does have a capacity to stand a major disaster, because the impact of that risk, however much the company is fined or deal with the environmental impact, the massive organisations can withstand that and their reputation can withstand it. So I think probably in terms of risk capacity, it is a more complex idea than just money, I think there are some more intangible aspects of risk

capacity, and probably then it is linked to size, maybe... the size of the organisation...so you can imagine a major ...something that goes very wrong in a medium-sized organisation.... [Do you measure by revenue?] Yeah you could measure it by its revenue or number of its employees, I think there are ways to look at what constitutes... I think probably it's not only how much money they've got, it's something to do with the age of the organisation and the degree to which the organisation is...If you take a hotel chain for example, you would imagine that really big players like Hilton or some other big chains, their capacity to bear risk, not just financial, in terms of their status in the industry is much greater than a small player. If they did something really bad, it's must be the same with the airlines... the size protects somehow, and it's not just about the balance sheet... there is something about size that affects the risk capacity.

N: So can I say that higher risk capacity, the higher risk appetite?

R: I think is not as simple as that. I think the higher the risk capacity, the higher risk appetite you could have. If you've got a big capacity to bear risk, then you could have a higher risk appetite, and I guess this may be an argument that says may be you should have a big risk appetite as you are making your assets working for you. So if you get your return on your assets, you should have... But whether that actually works like that....

N: Because there are other influential factors you have to take into account...

R: Yeah the whole mix, and it's probably not wrong to have an appetite that is challenging your capacity as long as you know you are doing that...because if you own a company and you want to work hard and you run the risk of going bankrupt, and there might be moral issues in terms of your employees, but if you are the owner, then there is a view that you have the right to do it, isn't it? I guess that's down to culture as well.

N: Alright thank you. Would you think that the number of senior decision makers, normally it's the board, because the board is making all the decisions, do you think that the number of the board members will have something to do with the risk appetite? There is actually an argument that the more people you have within the group, and the more difficult to reach a consensus...

R: Yes, that's right. So I would say yes, unless it is very hierarchical and the people are not equal members...so the bigger the group size...if you look at some of the psychological effects on group decision making and you look at the culture shift and risk shift those sort of features, then I think they will say that the desire to be part of the group is a major influence and the more...if you are an individual in a bigger group, then your ability to

influence the whole is more difficult than if you are in a smaller group, so that in a bigger group probably you get less meaningful challenge, but the big question for me is if that's the case, if you've got a bigger board, and you don't have much challenge, then what is the major influence? Is it "we always do this, so we will do again" or is it the most influential members of that, is it the chairman or the people who are...is it the exec members who have more power than the non-execs. I mean I'm not an expert in board construction, but whether it is the board or executive committee or any team, even if you look at in a project team, the bigger the group the more likely it is that you won't get effective challenge, because it is easier to conform and easier everyone will just say yes.

N: So if we want to make a decision which is risky, it may not be approved by everybody...

R: Yeah, may be that groups that recognise their ability to break out what they normally do, that's where senior teams to use consultants to help them, to just provide challenge or help take them through that decision making process.

N: What about the remuneration of the top management?

R: Well absolutely depends on bonus plans. So yes. What their incentives are? So if people are incentivised to grow and they've got big bonus plans associated with it, then I would imagine that it would be a major determinant on behaviour.

N: But may be the incentives might influence the individual risk preferences...

R: Well it won't influence...my understanding is that as individuals we have inherent preferences and then there are environmental factors that influence our behaviour. And what we are incentivised to do would be an influence on that people...I think it is where in terms of performance measures and getting balance of objectives. Again I have experience using highly regulated industries, in oil and gas and mining, the largest part of the executive bonus plan will be about the safety of their employees before it's about performance, and they have to do that, because you know they are doing really dangerous things, and they've got to safeguard the communities they've worked in and the environment, etc. So I think incentives absolutely do drive behaviour. So it's about objectives isn't it? So what's your strategy, what's your objectives, what are you gonna measure, what are you gonna incentivise people on, and all that will affect the risk you will be prepared to take.

N: How about the company's current performance? So whether it is performed well or underperformed, would that affect the company's willingness to take risk?

R: well I think it probably does, but... there is research I think has been done on individual level again to show how...if we've been successful in something, can we get positive feedback, and that would fuel our ability for risk taking. So it's almost a virtual cycle. If you go back to the prospect theory and loss avoiding, then how much you can then transfer from that individuals to corporations? I don't know.

N: There is actually research at organisational level about performance that shows similar things. The relationship between performance and the tendency to take risk is not definitive. Some say that if you are performing well, you might take more risk; but some say that well performed companies tend to take less risk because the fear that the more risk taking would lead them to reduce the performance, which is the loss aversion.

R: Well yes. Loss aversion. Probably, I am thinking about my own firm which is really small. But some of the patterns of the decisions we take in the years that we've been successful, we tend to take incremental steps, not really huge steps, whereas I can see that if the things were declining, and you sort of get slightly more desperate, you are more willing to do something like really... you know my major interest is organisational change and what the drivers are from those incremental small change to like massive change, sometimes maybe big risk taking is more of a response to either actual or perceived declined performance rather than great performance. It's all just observations really, I don't have any data.

N: Well yes what you have said is also confirmed in existing research as well. Some people find underperforming companies tend to take more risk because they think that the more risk taking will be likely to bring them back to normal...[Yes, it is more of a desperation isn't it?]. Okay, what about the company's stakeholder requirements?

R: Certainly...If you've got shareholders, that will have an influence on your board and that's a factor isn't it? But how influential shareholders are, the bigger you get is an interesting thing. I can see how shareholders, if you're relatively small, might be more vocal and influential at one level. I think regulators definitely have a voice depending on your industry, you know regulators are more or less influential. Customers are an interesting thing, aren't they? How much influence customers will have on risk taking... I guess customers aren't often directly influential...if customers choose to go to competition, they have an indirect voice because of

consumer behaviour obviously changes your performance. Whereas I guess customers don't tend to be hugely vocal in what they do, and I mean governments usually play through regulators largely. I think that it would be wrong to say that stakeholders are not influential. I'm trying to think of a situation where employees would have an influence on the decision making, you know the risk appetite of the company. I see employees are like customers... they can cause trouble, so they could... I'm not saying that they have no influence; I don't see them being a major influence.

N: Well normally employees can demand a higher pay?

R: Depends on the culture, the country that you are in. An employee of all British company who is demanding a higher pay would have no power. The power of the employees was broken in the UK in the 80s really I would say. They can be nuance, they can cause trouble, but I don't see them as being the most influential stakeholder.

N: There is an interesting problem. You see you've got different types of stakeholders whose expectations can be contradictory, [Absolutely], how can a company balance that and decide what they are going to do finally?

R: Well. I suppose that's the challenge for all organisations. They've got competing stakeholders. Their objectives need to reflect all of the stakeholders. I mean what I see mainly is organisations who are pursuing the fiscal growth objectives, but trying to do that in a way that satisfies regulators and employees...so I would see employees probably in the same group as regulators...Companies can do things wrong can either result in a legal challenge, employees who are not motivated, so you start to see indicators of absenteeism and people leaving... I'm not saying that employees are not matter to performance, they do massively, but do I see employees being the direct influence on the risk appetite? No. Minor influence, not major influence. Share ownership is probably, and the ambition of the people at the top for market share.

N: Yeah I think those factors we've said are mainly internal factors to an organisation, so let's talk about the external, the environmental factors... You've mentioned earlier about the competition, so can I say that the higher the competition, the company tends to take higher level of risk?

R: At one level that seems logical, doesn't it? If you've got lots of competition, it takes more to stay ahead. And taking less risk would probably mean you would slip behind. But it probably depends on the sector and how much innovation is expected...so if you are in consumer electronics, then it would be fairly easy to see that if you don't take any risk

you would be out of business pretty soon. So yes I think as a general rule maybe, but probably in some sectors there is less. I don't know, if you take banking or insurance, does more competition drive risk taking? Not necessarily does. I personally think the ego of the senior managers drives risk taking. If you look at some of the studies that have been done on individuals who take massive risks, then they would say that things that drive risk taking are ego, fear, and can't remember the third thing. But again that's done at the individual level. But if you've got competition between firms can often manifest itself as competition between senior executives...

N: What other environmental factors can you think of?

R: Yeah, regulations, competition, obviously global economic situation... well depending on where you've got a very large organisation that is very diversified, then obviously you would expect it to not have a single risk appetite to than it would be diversified across its portfolio...you know, I am sure that lots of global companies have got a very high tolerance for risk, if they are expanding into new markets, new geographies, but then more cautious appetite, so I think there are also factors about how much these companies are working as one unit, so this is not my area but I know there is research which says companies can never truly be global companies, so whether they are actually collections of local companies...whether they are behaving globally or actually they are behaving locally. Therefore, in very large companies, if you take Hilton lets say, but to what degree is their risk appetite at the senior levels or actually their risk appetite in American markets as opposed to risk appetite in African markets, as opposed to Far East market, I don't know. I think that's interesting as well...So it's about size again. And therefore where you are competing, so are you trying to make market, are you trying to consolidate... I think they are all factors. And there will be financial things, there will be sociological things, there are things about infrastructure depending on your... let's take on gas which I know well, they will have a whole portfolio, some investments going on, some of them will be quite safe, and some of them will be hugely risky, and so risk appetite isn't a single thing. It might be influenced by some common cultural aspects, but I think it is situational. So at what level of the organisation is risk appetite most influential on decision making? I think it's not always at the top.

N: I like to talk about more of the cultural aspect, when I was doing my literature review about risk taking at the individual level, there was quite a lot of debate about the gender influence on the level of risk taking. It is said that men tend to take more risk than women normally, and I was thinking that would an organisation be more of a masculine culture or feminine culture? Would that be possible in organisational culture?

R: Yeah absolutely. I personally would think that anything that looks purely on gender is not that valid. There are inherent personality factors that are not gender specific. I think that influence of gender is more cultural and if you... And I think it can work both ways, because often females who...I mean in most organisations around the world, in senior levels females will be in the minority to males for some reasons, but there is some evidence certainly in western organisations, when you get women in those jobs, they are fighting harder to show their worth, and that can lead to more risk taking, that's one aspect. Also when we talk about Scandinavian, if you look at the Hofstede's masculine and feminine, you would expect to see a lot of feminine traits in managers in that culture which is about observation, adaptation, harmony, than is about power and leading from the front. So I think the gender is a too simplistic variable, because there are too many cultural and social influences on that.

N: Yeah there is one more factor which just pops in my mind which is about the Board again. It is the homogeneity of the Board, whether the board members have similar backgrounds, experiences, etc...

R: I think it does make a massive effect, yes. I think that all of the factors that either enable or reduce challenge are the ones that matter. Because if you've got a very homogeneous group of people with similar backgrounds and similar experience, then we know that it will challenge harder, and we know that there is value of diversity, but actually we are all drawn to people like us, "oh look we all agree", "we must be right", and that is really a dangerous place for any people to get into. So anything that restricts challenge is a bad thing, and I think in terms of having a risk appetite to be set at an appropriate level, because if you've got a big risk capacity and a low risk appetite, and you would argue that you are not taking enough risk. So I think the homogeneity of the board is a factor. And ideally you would have less similarity and more differences, if you want to get good decisions. So you need a little bit of tension there, so something that enables the discussion and challenges.

N: Okay. The last factor is the level of rewards. When you look at a particular risk, you think about the potential rewards for that risk. If the level of risk is beyond your appetite but the reward is very high and attractive, would that makes you do something that is beyond your appetite for risk?

R: You would sort of hope that it would be correlated, wouldn't you? Yes if it is really a big prize, you would be prepared to take more risk to achieve the prize. So it's a conscious trade-off, so I think that's a conscious process and how much is risk appetite actually a sub-conscious or pre-conscious process. I guess David and I's work, and this is where we differentiate risk

appetite and risk attitude is that if you are gonna get good decision making, that we would argue that people need to override their sub-conscious, their inherent tendencies, and to say, “actually in this situation, the reward is X, therefore, maybe we should take more risk and that would be logical.” So that it’s brought to the conscious level out of the sub-conscious and emotional level...

N: So you also need to think about not only the level of rewards but also your ability to manage it...

R: That’s right. It’s really a complex....

N: Yeah the decision of taking risk is really a complex and a combination of all the factors to make that decision.

R: Yes, that’s right, and you need a focus of that and therefore you need your senior leaders to really be quite open It’s about the decision makers’ ability to understand all of those various factors that might influence the risk appetite and be able to stand apart from that.

N: Yes this is one of the purposes of my research. I want to first identify the factors which influence the risk appetite as many as possible, and their relative importance to risk appetite on decision making, so that decision makers can use this work to help them think through...

R: Yeah. So I have a prejudice to human factors, rather than non-human factors, personally.

N: So after all the factors that we have discussed, can you name five factors that you think are the most important for influencing the company’s risk appetite?

R: I would say, not in this particular order, the perspectives of most powerful people, that would be a combination of inherent preference and experience and personal thing; Second thing, something to do with tradition, something in the culture to do with the patterns of actions, this is what we normally do here...Third thing is probably risk management capability of the organisation. So the degree to which good risk data as an input to decision making is valued or not valued. Fourth thing in terms of the environmental factor...the competition I think has an influence, because it also influences the senior leaders behaviours...there is some evidence between big IT companies that their competitions between the leaders is actually prevalent even though they are massive companies. Yeah they are the main ones.

N: So I guess this is it. Do you have any final comments about the interview or my research?

R: No I am really interested in what you come up with. So do keep me in touch with. It's a really important area, fascinating area, misunderstood at so many levels, even down to... we don't even have any words or units to...you know, is risk appetite from big to small, we don't have a language to describe it. And that's David and I's work said that we therefore need to have, we need to create a language, we need to have thresholds, we need to have measures.

N: For me fundamentally the purpose of the risk appetite is that at the end of the day we want to make informed and optimised decisions and I hope my research can help with that... So thank you very much for today. I really appreciate your time and contribution...

[Ending chat]...

Appendix 3.11 Quality criteria for case study research

Quality principles	Explanations
1. Readers can follow the research process and draw their own conclusions.	<ul style="list-style-type: none"> • A comprehensive account of the research process • A statement of the problem, purpose, and research questions of the study • A description of methods of data collection, coding, analysis, and interpretation procedures. • Motives for the selection of cases • Limits of the research project • Clear presentation of results and conclusions
2. The researcher should present the paradigm and pre-understanding.	<ul style="list-style-type: none"> • Personal and professional values and if these have changed in the course of the research • Theories and concepts that govern the project together with the reasons for the choice of these theories and concepts • The researcher's prior experience and other pertinent information on the researcher
3. The research should possess credibility.	<ul style="list-style-type: none"> • Correct data, including correct rendering of statements and views of informants • Demonstrate how analysis and interpretation are supported by data • Demonstrated confidence in theory, concepts, and conclusions used or generated in the research • Honest presentation of alternative interpretations and contradictory data • The conclusions should accord with one another • The actors in the cases should be able to recognise what is presented in the research • Presentation of all relevant data and information used in the case study
4. The researcher should have had adequate access.	<ul style="list-style-type: none"> • Methods and techniques used to ensure access • Account of any difficulties in deploying desired access methods • Account of any problems and limitations in access that arose through denied access • Account of any problems and limitations in access that arose through time and money limitations • Explain how access limitations have possibly impaired the research
5. There is an assessment on the generality and validity of the research.	<ul style="list-style-type: none"> • To what areas the results apply • How closely the research represents the phenomenon that the researcher aimed to study • If other research confirms or disconfirms the findings • If results bear out or disagree with extant theories and concepts
6. The research should make a contribution.	<ul style="list-style-type: none"> • Contribute to increased knowledge • Deal with relevant problems • Optimise the trade-off between methods, techniques, and results • Be of value to the scientific community, the client, and the public • Actively made available to the scientific community, the client, and the public
7. The research process should be dynamic.	<ul style="list-style-type: none"> • The extent to which the researcher has continuously learned through personal reflection and dialogue with others

	<ul style="list-style-type: none"> • Demonstrated creativity and openness to new information and interpretations • The ability to switch between deep involvement and distance • A demonstrated awareness of changes of research design, methods application, and so on during the research process.
8. The researcher should possess certain personal qualities.	<ul style="list-style-type: none"> • Commitment to the task of research • Integrity and honesty, being able to voice his or her conviction • Flexibility and openness, being able to adjust to changed conditions and new-even disturbing-information

(Source: Gummesson, 2000: 186-187)