MANAGERIAL PERSPECTIVE ON RISK AND RISK TAKING OF QUOTED COMPANIES IN NIGERIA

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Abstract
This study examined managerial perspectives on risk and risk taking of quoted companies in Nigeria It adopted a cross sectional research design. Target population consists of quoted companies in the Nigerian Stock Exchange operating in Rivers State, Nigeria, However, 20 companies were surveyed using a simple random sampling technique. 200 senior managers were selected. To ascertain the sample size the study employed Krejcie and Morgan (1970) sample size determination table which yielded 132. About 120 copies of the questionnaire were correctly filled and retrieved for data analysis. The study concluded that managerial perspectives on risk and risk taking is influenced by financial and external risk which determines risk taking behaviour of managers. The study recommended that finance and external factors are crucial for company's success and should be considered before any risk can be taken. Finally, managers should have all the information from all the sectors of the organization before taking risk.

Keywords: Managerial perspective on risk, risk, risk taking, job risk, social risk, family risk, financial risk, external risk.

INTRODUCTION

Risk is an unavoidable element in organisational life. Risk helps managers to be abreast of unstable business environment. Risk taking is the bedrock of any successful business personnel in the world. Therefore for business to survive in the changing environment, managers must take risk. With these numerous advantages of risk taking, one would argue that managerial perspective on risk taking is the syringe in the hands of all managers that want to succeed.

In line with the above postulations, managerial perspective on risk taking is a day to day activity in making positive decisions regarding business survival. If one examines most of the big conglomerates in Nigeria, Africa and the rest of the world, one can submit that risk is embedded in their mission statement which all the organisational stakeholders assimilate and transmit to goals. However, the mindset of every manager is to be ahead of its competitors be it home-based or multinational enterprise, they have one thing in common which is either survival or extinction from the sphere of business. Perspicuously, managerial view on risk and risk taking is a fundamental criterion for every manager to survive in the turbulent business circle.

Nevertheless, studies on risk had been carried out around the world using different variables and industries. March and Shapira (1987) in their paper explores the relation between decision theoretic conceptions of risk and the conceptions held by executives. They concluded that managers take risks and exhibit risk preferences. Secondly, Sarens, De Visscher and Van Gils (2000) provided an in-depth analysis of risk management and internal control practices within Belgian social security public institutions. Their findings suggest that "not all those who have implemented risk management understand how risk management can help them to achieve their objectives and anticipate new opportunities, even though these are basic concepts of ERM". Thirdly, Fazelina, et al. (2013) examined the relationship between risk propensity, risk perception and risk-taking behaviour in an emerging market. Their findings revealed that "risk propensity is positively related to risk-taking behaviour whereas risk perception was negatively related to risk-taking behavior". Fourthly, Tsai and Luan (2016) carried out an empirical examination on what makes firms embrace risks. They develop risk-taking capabilities which include absorptive capacity, network resources, and organizational slacks. The finding of their study showed that absorptive capacity, network resources, organisational slack were positively associated with risk-taking behavior. Lastly, Llopis, et al (2013) examined managers' risk taking propensity and innovation in organizations. Results of their study indicated that "employees´ perceived risk-taking climate plays a significant role in determining the effects of managerial risk taking on innovation performance".

Drawing from the above studies, it appears that none of the researchers study managerial perspectives on risk and risk taking in quoted companies especially in Nigerian work environment. This has created a lacuna in the literature which has informed the basis for this study.

Aim/Objectives of the study

The aim of this study is to ascertain the association between managerial perspective on risk and risk taking of quoted companies in Rivers State, Nigeria. However, the objectives of this study are to:

1. Examine the association between absorptive capacity and managerial perspective on risk and risk taking
2. Examine the association between network resources and managerial perspective on risk and risk taking

Research Hypotheses

The following null hypotheses were formulated to guide the researcher's objectives.

HO_1: Financial risk does not significantly associate with managerial perspective on risk and risk taking.
HO_2: External risks does not significantly associate with managerial perspective on risk and risk taking.

REVIEW OF RELATED LITERATURE

The concept of Risk and Risk Taking

Risk-taking has traditionally been defined as choice among alternative outcomes under conditions of probabilistic uncertainty (Berglund, 2007). Brockhaus (1980) postulate that risk-taking is "the perceived possibility of receiving the rewards associated with success of a proposed situation, which is required by an individual before he will subject himself to the consequences associated with failure, the alternative situation providing less reward as well as less severe consequence than the proposed situation." Furthermore, Mehdi and Hamid (2011) argue that "risk-taking refers to the tendency to engage in behaviors that have the potential to be harmful or dangerous, yet at the same time provide the opportunity for some kind of outcome that can be perceived as positive”. Other researchers have elucidated that “risk taking involves the engagement of significant resources to activities that have significant possibilities of failure, such as incurring heavy debt or making large resource commitments, with the objective of grasping potential high benefits” (Lumpkin & Dess, 1996; Alegre & Chiva, 2010; Fernández-Mesa, Alegre-Vidal & Chiva-Gómez, 2012 in Llopis, et al, 2013). Llopis, et al (2013) contended that risk taking involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to ventures in uncertain environments. Llopis’ contention on risk taking seems to be dependent on the spirit of boldness to take actions that could promote or mar organisational goals.

Xu and Reuf (2004) argued that risk is a function of the variation in the distribution of possible outcomes, the associated outcome likelihoods and their subjective values. In other words, Antonites and Wordsworth (2009) posit that risk is the possibility of innovation having an unwanted result. Zimmerer and Scarborough (1996) viewed risk as the conflict situation wherein the entrepreneur will find him/herself. Submission of Antonites and Worsworth (2009) is akin to decision under uncertainty which the decision-maker does when the environment is not conducive. Zimmerer and Scarborough (1996) highlighted four types of risks that managers cannot afford to omit from their strategic book. These include: Time risk, investment risk, technical risk and, competitive risk. In search of risk typologies, Mehdi and Hamid (2011) highlighted the following four types of risks which include:

(i). Financial risk:

Mehdi and Hamid (2011) contended that most entrepreneurs finance by savings and personal effects, and if they fail, they will lose it. This is evident in every business, because finance is the lubricant used to move the organization forward. Any decision that will thwart financial base of any organization can set the business ablaze. Since they don’t want and can't risk their own savings, house, effects and rights, are not successful in their job and its risk – taking (Mehdi and Hamid, 2011). This argument is in line with manager’s perception on risk taking.

(ii). Job risk

Job risk refers to how managers’ risk taking influence their position as leaders. There is always this question "can an entrepreneur find a new job or return to his /her previous job if he /she fail in his / her economic activity?” (Mehdi and Hamid, 2011). In the process of making decisions, managers are conscious of their jobs because any risk that will affect the company can send them out of the enterprise. This is the biggest concern of managers who want to have a secure organizational job with ideal emoluments (Mehdi and Hamid, 2011).

(iii). Social and family risk.

The beginning of entrepreneurial job needs a high energy and is time–consuming (Mehdi and Hamid, 2011). Because of these undertakings, an entrepreneur may confront some social and family damages like deficiencies and the problems resulting from his/her absence in the home and its effects on his / her family (Mehdi and Hamid, 2011). Risk comes in several ways. When taking risk, managers consider their families and what will be their fate when the risk becomes negative. Finally, Mehdi and Hamid (2011) added another type of risk which they refer to as mental risk. These include mental tensions, stress, and anxiety. According to them mental risk have many destructive influences on the individual.

Other scholars have outlined three categories of risks that managers face when embarking on steps of progress (Kaplan and Mikes, 2012). These categories include the following:

Category I: Preventable risks: Kaplan and Mikes (2012) elucidate that preventable risks are internal risks, arising from within the organization, that are controllable and ought to be eliminated or avoided. Examples are the risks from employees' and managers' unauthorized, illegal, unethical, incorrect, or inappropriate actions and the risks from breakdowns in routine operational processes (Kaplan and Mikes, 2012). Kaplan and Mikes (2012) contended that "this risk category is best managed through active prevention: monitoring operational processes and guiding people's behaviors and decisions toward desired norms."

Category II: Strategy risks: A company voluntarily accepts some risk in order to generate superior returns from its strategy (Kaplan and Mikes, 2012). A bank assumes credit risk, for example, when it lends money; many companies take on risks through their research and development activities. Strategy risks are quite different from preventable risks because they are not inherently undesirable (Kaplan and Mikes, 2012).

Category III: External risks: The external risk includes political instability, environmental disaster and recessions. These factors influence the way managers take risk for the organization. External risks include natural and political disasters and major macroeconomic shifts (Kaplan and Mikes, 2012). Most external risk events, however, require a different analytic approach either because their probability of occurrence is very low or because managers find it difficult to envision them during their normal strategy processes. The following sources of external risks have been identified and explained by Kaplan and Mikes (2012).

- *Natural and economic disasters with immediate impact.* These risks are predictable in a general way, although their timing is usually not (a large earthquake will hit someday in California, but there is no telling exactly where or when) as cited in Kaplan and Mikes (2012).
- *Geopolitical and environmental changes with long-term impact.* These include political shifts such as major policy changes, coups, revolutions, and wars; long-term environmental changes such as global warming; and depletion of critical natural resources such as fresh water as cited in Kaplan and Mikes (2012).
- *Competitive risks with medium-term impact.* These include the emergence of disruptive technologies (such as the internet, smartphones, and bar codes) and radical strategic moves by industry players (such as the entry of Amazon into book retailing and Apple into the mobile phone and consumer electronics industries) as cited in Kaplan and Mikes (2012).

In the final analysis, Griffin (2016) in her writing on types of business risks outlined six types of business risks which include strategic risk, compliance risk, financial risk, operational risk, reputational risk, and other risk. This study will focus on financial risk and external risk as these two factors affect every business positively or negatively depending on how decisions concerning their application will be made in the organization.

Managerial perspective on risk and risk taking

Managers take risk consciously and unconsciously within the scope of achieving firm's objectives. Some managers view risk taking as gambling whereas others assume it is part of organisational life. In essence, certain decisions that will promote the organization can either be positive or negative. Risk taking is associated with prospect theory that managers used to binocularize the future or the goal they want to achieve. However, not all managers can take risk that will propel them to their destination due to fear of the unknown that clouds their minds and emotions. It is a well-known fact that a business without risk as its philosophy is like a bird without wings. It has been found that only the top level managers prefer taking risk (Shapira 1986). MacCrimmon and Wehrung (1986) cited in March and Shapira (1987) found that higher level executives scored higher on their risk taking measures than the lower level executives.

In modern management, managers make decisions based on the alternatives available to them at the time while averting risk that will plunge them into liquidation. Progressively, since managers have different views on risk and risk taking it becomes worrisome to come up with an established argument that managers' perception on risk is because of this or that factor. However, MacCrimmon and Wehrung (1986) argued that some range of tactics is employed, such as sharing risk with others and delaying or delegating decisions. Using these tactics managers would want to exempt themselves from blame especially if decisions turn out to affect them negatively. Risk and risk taking therefore could depend solely on the personality involved.

Methodology

This study adopted a cross sectional research design. Target population consist of quoted companies in the Nigerian Stock Exchange operating in Rivers State, Nigeria, However, 20 companies were surveyed using a simple random sampling technique. 200 senior managers were selected. To ascertain the sample size the study employed Krejcie and Morgan (1970) sample size determination table which yielded 132. About 120 copies of the questionnaire were correctly filled and retrieved for data analysis. 5-point Likert scale ranging from *5=Great extent; 4=Moderate extent; 3=Considerate extent; 2=Slightly extent; 1=Not at all* were used to measure financial risk, external risk and managerial perspectives on risk with 7 items for each variables. Face and content validity was used to ascertain the validity of the instrument. Cronbach Alpha was employed to determine the reliability of the instrument at a benchmark of 0.70 (Nunnally, 1978). Spearman's Rank Order Correlation Coefficient was used for data analysis with the aid of SPSS 20.0.

Data Analysis and Discussions of findings

HO_1: Financial risk does not significantly associate with managerial perspective on risk and risk taking.

Correlations

			Financial risk	managerial perspective
Spearman's rho	financial risk	Correlation Coefficient	1.000	.860**
		Sig. (2-tailed)	.	.000
		N	120	120
	managerial perspective	Correlation Coefficient	.860**	1.000
		Sig. (2-tailed)	.000	.
		N	120	120

** Correlation is significant at the 0.05 level (2-tailed)

From the above SPSS output, financial risk is positively associated with managerial perspective on risk and risk taking. Therefore, the null hypothesis is hereby rejected on the basis that p-value (.000) is less than the level of significance (0.05). Alternate hypothesis is hereby accepted and state that financial risk is positively associated with managerial perspectives on risk and risk taking. This implies that financial risk affect managers' perception on the way they take risk. This is in line with Fazelina, et al. (2013). They examined the relationship between risk propensity, risk perception and risk-taking behaviour in an emerging market. Their findings revealed that "risk propensity is positively related to risk-taking behaviour whereas risk perception was negatively related to risk-taking behavior."

HO2: External risk does not significantly associate with managerial perspective on risk and risk taking.

Correlations

			external risk	managerial perspective
Spearman's rho	external risk	Correlation Coefficient	1.000	.785**
		Sig. (2-tailed)	.	.000
		N	120	120
	managerial perspective	Correlation Coefficient	.785**	1.000
		Sig. (2-tailed)	.000	.
		N	120	120

**. Correlation is significant at the 0.05 level (2-tailed)

From the above SPSS output, external risk is positively associated with managerial perspective on risk and risk taking. Therefore, the null hypothesis is hereby rejected on the basis that p-value (.000) is less than the level of significance (0.05). Alternate hypothesis is hereby accepted and state that external risk is positively associated with managerial perspectives on risk and risk taking. This means that external risk such as political instability, disaster and recessions influence the way managers take risk for the organization. This finding corresponds with Tsai and Luan (2016) result. They carried out an empirical examination on what makes firms embrace risks. They develop risk-taking capabilities which include absorptive capacity, network resources, and organizational slacks. The finding of their study showed that absorptive capacity, network resources, organisational slack were positively associated with risk-taking behavior.

Conclusions and Recommendations

The study concludes that managerial perspectives on risk and risk taking are influenced by financial and external risk which determines risk taking behaviour of managers. The study recommends that finance and external factors are crucial for company's success and should be considered before any risk can be taken. Finally, managers should have all the information from all the sectors of the organization before taking risk.

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