

Contents

Preface	V
1 Introduction.....	1
Research Problems Tackled by this Book.....	1
The Analytical Strategy of this Book.....	7
The Contribution to this Book.....	14
This Book in Context of the Literature.....	16
2 Theory of Risk and Decision Making in Management... 21	
Definitions of Risks.....	21
Incorporation of Risk into Decision Making Theory.....	28
Specifying Managerial Risk Preference.....	31
Summary and Conclusions.....	38
3 Behavioural Evidence on Risk and Decision Making... 41	
Principal Studies.....	42
Animal Studies of Risk and Decision Making.....	41
Human Studies of Risk and Decision Making.....	45
Summary of Experimental Findings.....	56
4 Real-World Decision Making Under Risk..... 63	
Principal Studies.....	63
Personality and Risky Decision Making.....	64
Nationality and Risky Decision Making.....	66
Environmental, Temporal and Framing Effects on Risky Decision Making.....	68
Style Effects in Risky Decision Making.....	72
Bayesian Considerations in Risky Decision Making.....	76
Other Influences on Risky Decision Making.....	80
Decision Making Evidence from Racetrack Gambling.....	81
Discussion.....	85
Summary.....	89

5 Risk-Taking and Organisation Performance.....	91
Financial Risk and Performance in Organisations.....	91
Studies of the Impact of Risk on Firm-Specific Returns.....	96
Company Influences.....	96
Institutional Framework.....	100
Longshot Bias in Organisations.....	103
Summary and Conclusions.....	107
 6 Published Models of Decision Making Under Risk.....	 115
Models of Decision Making Under Risk.....	115
Mathematical Models.....	115
Descriptive Decision Making Models	117
Prospect Theory: Does It Describe Reality?.....	119
Description and Implications of Prospect Theory.....	123
Testable Hypotheses of Prospect Theory.....	125
Real-world Applications of Prospect Theory.....	130
Discussion and Conclusions.....	142
Inadequacies of Current Decision Making Models.....	144
 7 Why Managers Take Risks.....	 149
Summary of Decision Making Behaviours.....	149
Research Methodology.....	154
Choice of Survey Technology and Structure.....	157
Survey Participants.....	157
Measures of Survey Respondents' Personal Traits.....	159
Research Deficiencies.....	164
Managerial Risk Taking: Carter Racing Team Scenario.....	165
Data and Respondents' Characteristics.....	166
Internal Consistency of Answers.....	169
Univariate Influences on Risk Propensity.....	175
Multiple Regression of Influences on Risk Taking.....	177
Discussion.....	179
 8 How Companies Control Risks.....	 185
Data and Respondents' Characteristics.....	185
Organisational Risk Strategies.....	187
Organisational Risk Outlook.....	193
Executives' Perceptions of the Business Environment.....	194
Executives' Attitudes Towards Risk.....	195
Risk Outcomes for Organisations.....	199
Influence of Risk on Financial Results.....	209
Corporate Risk Propensity.....	211

Discussion.....	217
9 Summary and Discussion.....	225
Influence of Risk on Real-World Decision Making: An Update of <i>Applied Behavioural Economics</i>	225
Personality.....	228
Heavy Discount for Future Costs.....	231
Decision Making Biases.....	232
Reference Level.....	235
Identification with Outcome.....	236
Portfolio Effects.....	238
Institutional Framework and Socialisation Effects.....	239
The Links between Risk and Organisation Performance.....	241
Measures of Organisation Risk.....	241
Organisational Risk Attractors.....	243
Organisational Performance.....	245
Conclusion.....	247
10 Risk Budget Theory.....	249
Key Elements of Decision Making Under Risk.....	249
Decision Maker Personality and Perception.....	249
Risk Sensitive Foraging and Reference Levels.....	252
Mental Accounting and Longshot Bias.....	254
Outline of Risk Budget Theory.....	255
Risk Budget Theory.....	255
Discussion.....	261
Validation of Risk Budget Theory.....	265
RBT's Explanation of Financial Decisions.....	265
Conclusion Testing.....	268
Conclusion.....	270
Appendix 10A: Mathematical Solution of RBT Examples.....	273
11 Conclusions.....	277
Answers to the Research Questions.....	277
What Leads Managers to Choose a Risky Alternative?	277
What Determines Whether Risky Choices Prove Correct?.....	279
Enterprise Level Risk Strategy.....	281
The Case for Enterprise Level Risk Strategy.....	281
People Selection.....	283
Framing Corporate Risk Philosophy.....	284
Evaluating Decision Risk.....	286
Managing Implementation Risk.....	287

Reporting Corporate Risk Strategy.....	288
Endnote.....	289
Appendix: Copy of Survey Materials.....	291
Letter to Potential Respondents.....	292
Carter Racing Case Study.....	293
Carter Racing Survey Questionnaire.....	294
Survey on Corporate Risk Management Questionnaire.....	307
References.....	327
Index.....	347