



Managerial risk aversion in the banking context of South Africa

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Abstract

This research posed four propositions concerning bank managers and risk aversion. The first one was that managers are risk averse, the second one was that managers from different banks would have similar profiles, the third one was that a manager with a risk appetite will not be placed in a position in where they influence bank policies and the last proposition was that every manager will have a unique perception of a person as having a high risk profile. Firstly it was found that the participating managers had high risk profiles, the second and third proposition remained inconclusive and the last proposition was confirmed, risk is defined subjectively. The most interesting insight was that the managers' high risk profile. This was a counter intuitive realisation, because due to the current turbulent economic times, one would have speculated that managers would become more risk averse. The research was exploratory and the aim was not to explain causal relationships. Instead, the aim was to lay the foundation for further research on the relationship between risk profile and organisational results. For business it is recommended that banks try to reframe their perception of risk, in order to penetrate new market segments.

Keywords

Risk aversion

Risk appetite

Risk survey

Bank managers

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name: Signature: Date:

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CHAPTER 1

1. Introduction

1.1 Introduction

The current global financial crises provided numerous instances where managers haphazardly opted for highly risky investments that initially seemed lucrative and promising (Sheaffer, Boyler, & Sarfaty, 2011), but ended with results that were not expected.

As humans, we seek to both understand risk and to put the understanding to use for the benefit of humanity (Berry, 2000). But these complex and adaptive environments were not predictable and they were constantly evolving (Watkins & Rietsema, 2012). Within this world of increasing uncertainty, companies tried to make sense of the “new” and each time they ventured into doing something new, they were confronted with having to take a risk (Wilkins, 1999).

Risk happens, when one is placed in a situation where the outcome is uncertain (Wilkins, 1999). The assessment of risk is affected by personal experiences and one’s own perceptions of larger trends (Goldsmith, 2001).

Managing risk is portrayed as a search for certainty, because taking a risk is a gamble: it is either a negative social connotation or a positive investment (Berry, 2000).

Risk can further be defined as a situation where the results and probabilities are unclear during the decision making process (Sheaffer et al., 2011). Risk is also about humans acting with an incomplete understanding of the consequences of their action and with those consequences being not so much unpredicted, but unpredictable (Berry, 2000).

Therefore, for the purpose of this paper, “risk” will be defined as the action one takes where one has to draw on one’s own previous experiences to act as a guide in a situation where the result of that decision is uncertain.

1.2 The Need For Change

Risk aversion is found to be one of the reasons why organisations take so long to change (Carnelli & Sheaffer, 2008; Wilkins, 1999). Managerial risk-aversion stands parallel to organisational lethargy, and this lethargy on the other hand, is again a breeding ground for risk aversion (Carnelli & Sheaffer, 2008). It is a cyclical and destructive process. Only by taking a risk, would an organisation be able to break the cycle.

By building its knowledge workforce, organisations attempt to manage their risk. Risk management is nowadays even more focused on in the current regulatory environment than ever before (Borgelt & Falk, 2007), but in a world of rapid change, technological advances and rising expectations, the pace of change has by far the outstripped the management systems we have (Watkins & Rietsema, 2012).

Risk management is now even greater than before, because shareholders need to protect their investments and reduce company problems by closely monitoring the actions of management. Risk management focuses on preventing loss, controlling losses that have already occurred and insuring a company against loss (Borgelt & Falk, 2007).

Developing strategies for coping with, and managing risk is a very familiar task of leaders, but under the surface of risk calculation, are incalculabilities and threats spreading (Berry, 2000). One cannot innovate without taking risks (Borgelt & Falk, 2007) and organisations that want to stay innovative, or ahead of the curve, must be on the look-out for that which is uncomfortable and maybe even shocking (Watkins & Rietsema, 2012).

1.3 Research Purpose

The purpose of this research is to explore the risk behaviour and decisions in a banking context within South Africa. The research objective is to find a risk profile that is evident in managers across the relevant banks and explore the relationship it has to the banks' policies.

1.4 Literature Objective

In this research study the concept of risk will be looked at from different viewpoints. There will be looked at the origin of risk, the result of taking risks, the subjectivity of risk perception, risk management, optimism bias, risk appetite, risk strategy, risk sharing as well as loss aversion.

1.5 Research Method

The aim of this research is not to explain causal relationships. Instead, this research aims to lay the foundation for further research on the relationship between risk profile and organisational results. The research will be done in an exploratory way which is about discovering general information about a topic that is not understood clearly and where one is not yet prepared to launch into a full scale, in-depth research (Saunders & Lewis, 2012).

1.6 Chapter Lay-Out

This dissertation will first start with a literature review of the most pertinent literature that deals with risk and risk aversion. The next chapter will be the discussion of the research propositions, followed by the chapter on the research methodology. Finally, the results will be presented and discussed before the dissertation is concluded.

CHAPTER 2

2. Literature Review

2.1 Introduction

In pressurised economic times like we are living in now (Sheaffer, Boyler, & Sarfaty, 2011; Amalia, Ionut, & Mihaela, 2012; Micheli, Schoeman, Baxter, & Goffin, 2012), it is almost intuitive that companies will avoid taking risks. Risks are avoided, because companies cannot afford to incur any further losses (Wilkins, 1999). It is almost intuitive, rational thinking that contributes to risk-aversion, because companies want to avoid risks within these dire economic circumstances (Berry, 2000).

In this chapter the concept of risk will be explored, various studies regarding risk as well as other subjects related to risk will be discussed.

2.2 Where Does The Concept Of Risk Come From?

In ancient times people believed that they do not have any control over their own fate. They believed that the result of their decisions cannot be controlled by themselves, they believed that higher powers, such as gods, determined the result (Berry, 2000).

As civilisation evolved, people started thinking they can control these results, by effectively calculating the probabilities of certain outcomes. These outcomes were predicted by drawing on their previous experiences with within similar circumstances (Berry, 2000).

2.3 The Result Of Taking Risks

The result of risk can be divided into two broad categories (Wilkins, 1999), firstly there is the physical risk of personal injury or harm, and secondly there is a risk of psychological embarrassment.

Physical risk can constitute anything that causes physical injury, harm or a loss of some kind. Examples of this are possibly being physically injured, or to physically lose something after a course of action is taken. Companies can sustain physical harm by incurring financial losses or perhaps, losing physical resources, such as assets.

Psychological risk constitutes of unseen, intangible factors. People will avoid taking a course of action where the risk of public humiliation or embarrassment is high.

Companies on the other hand, will avoid making decisions where their intangible assets are put at risk, such as their reputation or their brand. We can therefore postulate that companies will avoid taking a course of action where they can lose their resources, or where their reputation could be at risk. Risk aversion then makes companies more wary and less inclined to risk-taking (Tsai, 2012).

2.3.1 The Role Of Reputation Within The Banking Industry

The core of the banking industry is two-fold, on the one side they can lend you money and on the other side they can keep your money safe, by investing it for you (Panousi & Papanikolaou, 2012). If society feels that they cannot entrust their money to a certain bank, then they will withdraw their money and put it elsewhere. The bank is very reliant on the money of investors, therefore they cannot afford having their reputation shaken.

Except for reputation, the bank needs its financial resources. Finances are the core of their business. If they do not have their financial resources, they lose the core element that drive their industry.

This is why these two attributes are very important for a bank. Firstly they need their physical resources, and secondly they need their reputation to be intact. Risk is therefore not only physical, but also psychological (Wilkins, 1999).

By lending money to an individual, a bank not only commits its resources, but also its reputation. If there is a possibility that either one of these factors could be harmed, then the course of action will not be taken (Berry, 2000). We can therefore say that a bank is not only concerned about its resources, but also its reputation. Both these factors work closely together in assessing risk.

It is postulated by Borgelt and Falk (2007) that even if you were to lose all your resources, but your reputation remains intact, you would be able to rebuild your business. They go further to say that losing one's reputation is by far a greater loss than losing one's resources.

Entrepreneurs have the reputation of stimulating the economy (Hunter, 2012), they can add to the survival of an economy, but even with this common knowledge one is left with the question: will a bank easily lend its resources to an entrepreneur, or is the risk too high? How is this risk interpreted? Banks may very well see that the entrepreneur's predisposition towards risk-taking has no relationship to the likelihood of them successfully starting a business (Gartner & Liao 2012). So why should they also take risks along with the entrepreneur?

Entrepreneurship is not the only solution to economic distress. Goddard and Eccles (2009) suggests that the best strategy to follow during economic turmoil, is for managers to become less risk averse and even

to act in a manner contrary to conventional wisdom. The idea is to be different and to act different - not to follow the norm - where the norm is to be risk averse (Gervais, Heaton, & Odean, 2011, Panousi & Papanikolaou, 2012).

One should gather then that the possible solution to economic turmoil is to take some risks. However, within this complex world of abundant options, one is confronted with many options and adding to that, the complexity of our own unique worldview, it leads us to ponder whether all managers would interpret the same situation as a risky investment or not. Is risk defined subjectively or can it be measured objectively?

2.3.2 Risk Is A Subjective Concept

Sitkin and Weingart (1995) have researched the way in which risk is being subjectively defined. The amount of information you have regarding a situation, your previous experience and the amount of resources you need to commit, contributes to the level of risk you will attribute to that event (Bell, 1983; Sitkin & Weingart, 1995; Goldsmith, 2001).

Davies (2009) argues that this means that risk is not the same for everyone. It is more than just a consequence within a context and it can be experienced differently by different persons. Experiencing these consequences results into something Davies (2009) terms a “risk-averse society”. At the root of this aversion lies fear and this fear is fuelled by various factors, such as:

- The amount of confidence a person has in the regulation that is applied
- The amount of trust a person has in the technology used
- The amount of promotion used of the applied theory used in assessing the risk and
- The person’s innate desire for fairness to equally distribute the risk or the compensation of it.

We can therefore postulate that two people will assess the risk of the same event in two different ways. The interpretation of the riskiness of a situation is determined not by objective measures, but by subjective experiences.

A study undertaken by Leroy (2004) found that risk-taking amongst managers was positively correlated with productive investment decisions. This study was done in France, but similar studies have not yet been conducted in South Africa. Can we therefore postulate that we have managers in South Africa that are willing to take risks, and are these managers placed in positions where they can influence the investment decisions the bank makes?

Tseng (2012) also found that people who are risk averse tend to seek more information. The study of Tseng (2012) clarified differences in individual information searches in investment decision-making, but it also highlights the aspect of risk aversion which states that risk aversion can play a role when investment decisions are made. On studying the research one starts to wonder to what extent a manager rely on their “gut feeling” when making decisions, as opposed to relying on policies and processes.

To make this decision manageable, metrics are used to reduce a multidimensional problem to a single dimension (Polasky & Binder, 2012). This single dimension is then the way in which the bank uses its processes to weigh and consider whether it should invest in a client or not. It actively employs stewards who are inept at spotting and neutralising threats to the core (Sull & Houlder, 2006).

So, as far as the literature goes, companies will not encourage people to use their own discretion at making decisions, but would rather have systems and policies in place to act as guideline to override those emotions, when the time come to make a decision.

On the other hand, one cannot say that people are emotionless beings, people have emotions, but do they have the authority to make decisions? Do the banks only employ people who are risk averse, who will follow policies and avoid putting the bank at risk? The logical course of action would be to place risk averse people in management who can influence the policies and procedures of a bank, rather than people with a high risk appetite.

2.3.3 The Estimation Of Risk

Estimating the chance that different events might occur is usually a delicate task, subject to many inaccuracies. It is not only a question of estimating the events, but these probabilities can also change over time, leading to a very difficult evaluation of the initial risk that was induced by a specific decision (Fertis, Baes, & Lüthi, 2012).

It should be noted that the bank faces an arduous task when it starts estimating the risk it faces when it loans you money. They are faced with many variables and constraints, constrained to act in an uncertain environment.

The managerial decisions in such conditions are dependent on so many elements that it can only be calculated with statistical methods (Sipos, 2009). Thereby they try to estimate the chance of them losing their investment, should they invest it in an individual. It makes sense that the bank wants to limit their liability by making calculations before committing their resources to an individual or a project (Nishiyama, 2006).

These calculations are not however made uniquely from scratch every time for each individual applicant. Banks usually avoid risks by putting policies and processes in place to protect them from further losses (Nishiyama, 2006). However, the higher the stakes rise, the more risk averse the companies become (Helga Fehr-Duda, Bruhin, Epper &

Schubert, 2010), so we can argue that these stringent policies in a company will most probably be influenced by managers that are specifically risk averse.

Risk averse managers who create policies to protect the bank from making wrong investment decisions does, to some extent, imply that one needs to be cynical. The opposite of this risk aversion, leads us to people with an appetite for risk, or optimism bias.

2.3.4 Optimism Bias

Optimism bias is the tendency to think that negative events are less likely to happen to one self than to others (Caponecchia, 2010). Studies also supported the optimism bias hypothesis in that participants reported lower levels of seriousness, lower need for help, and anticipated a more favourable prognosis for themselves compared to others with similar symptoms (Spendelow, & Jose, 2010).

Rajapakse and Siriwardana (2007) state that accurate forecasting of future exchange rates are of vital importance for firms and portfolio managers in the management of risk in international transactions. These enterprises frequently resort to the forecasts of market analysts as a viable source. Rajapakse and Siriwardana (2007) found that market analysts' forecasts seem to be driven by over-optimism bias and that an examination of analysts' short-term forecasts revealed that they are subject to substantial over-optimism bias.

This indicates the reality of risk. People take risks, they believe they will not be affected by the result, or they are biased by believing the result will be in their favour.

2.4 Managers Who Take Risks

The appeal of risk, is that the higher the risk, the higher will be the reward. Watkins and Rietsema (2012) have found that companies who have managers who take risks are more likely to implement dynamic strategies, where these dynamic strategies accommodate and support the growth of the company (Adeyemi-Bello, 2001).

There is a process of discomfort a company goes through when it takes a risk (Watkins & Rietsema, 2012), because it has to move outside its normal way of doing things, it has to work with new information and make a new commitment. This discomfort does however not stay there, it is transitional. After the transitional process, the growth of the organisation - when the risk was taken - sets in.

One might argue that by employing managers who take risks, one employs people who will expand the organisation. This may result in pushing the boundaries forward towards growth in a new direction.

2.4.1 Risk Appetite

Lentino (2012) states that the success of a risk appetite function is determined by the extent to which a company can integrate its corporate strategy, risk management strategy, capital strategy, and business unit strategies. Baker (2011) also contend that proper implementation of a risk appetite framework will contribute to the success of the board of directors in determining the extent of the risk a corporation is willing to take to achieve its objectives.

We can therefor say that risk appetite should be properly documented as it may create confusion amongst the various stakeholders (Riley & Willson, 2011). There is a need for a defined risk appetite and by setting such a risk appetite it will guide employees within the areas where they

can operate and that they will learn over time, what business opportunities will not fit in it. This adds value to the day-to-day decision making (Blakely, 2009).

2.4.2 Policies And Processes

An organisation consists of resources, policies, process and a company culture (Raina, 2012). The risk taking of banks is limited by regulatory capital requirements that are there to prevent the bank's insolvency (Rajhi & Hassairi, 2012). We can therefore postulate that the management of the risks within a bank is being done by its policies and processes. These policies and processes are being however determined by one of their greatest resources: their people.

Literature does support the notion that people within the same set of circumstances, may act differently, due to a variety of inherent biases (Shlomit, Kudryavtsev, & Cohen 2012). This leads the author to summarise that given the same set of policies, within the same company, there is a possibility that two people (with the same policies) may interpret the same situation differently, due to their inherent biases (Lee, Miller, Velasquez, & Wann, 2013).

In "Overcoming a bias against risk" (2012), it is discussed how risk-averse organizations can reduce risk bias in the managers decision making on smaller investment projects. They suggest that organisations encourage managers to consider innovative ideas that have high potential returns, look at how discount rates are used to evaluate projects, and base performance appraisals on a portfolio of project outcomes rather than a single project. By doing this, the bias can be overcome.

2.5 The Banking Sector Of South Africa

South Africa has a developed and well regulated banking system which compares favourably with those of industrialised countries (Matoti, 2010). There are four major South African retail banks (Beneke, Wannke, Pelteret,

Tladi, & Gordon, 2012). Arguments can be made in favour of introducing more banks onto the South African platform, because as Tabak, Fazio, and Cajueiro, (2012) suggests, the larger a bank is, the more it benefits from competition.

Matoti (2010) also states that the South African banking sector is heavily regulated to ensure proper oversight over its operations, especially after the country went through an economic recession in 2009, which affected consumer affordability resulting in the banks being more reluctant to take on more debt.

2.5.1 The Dynamics Of The Banking Sector

As with many sectors, the banking sector is dynamic. As can be seen on Graph 2.1, the share price of this bank is depicted over a six month period. In these six months, the share prices went as high as 2900 cents and lower than 2500 cents. This just illustrates that a bank can either grow or decline, depending on the factors influencing it.

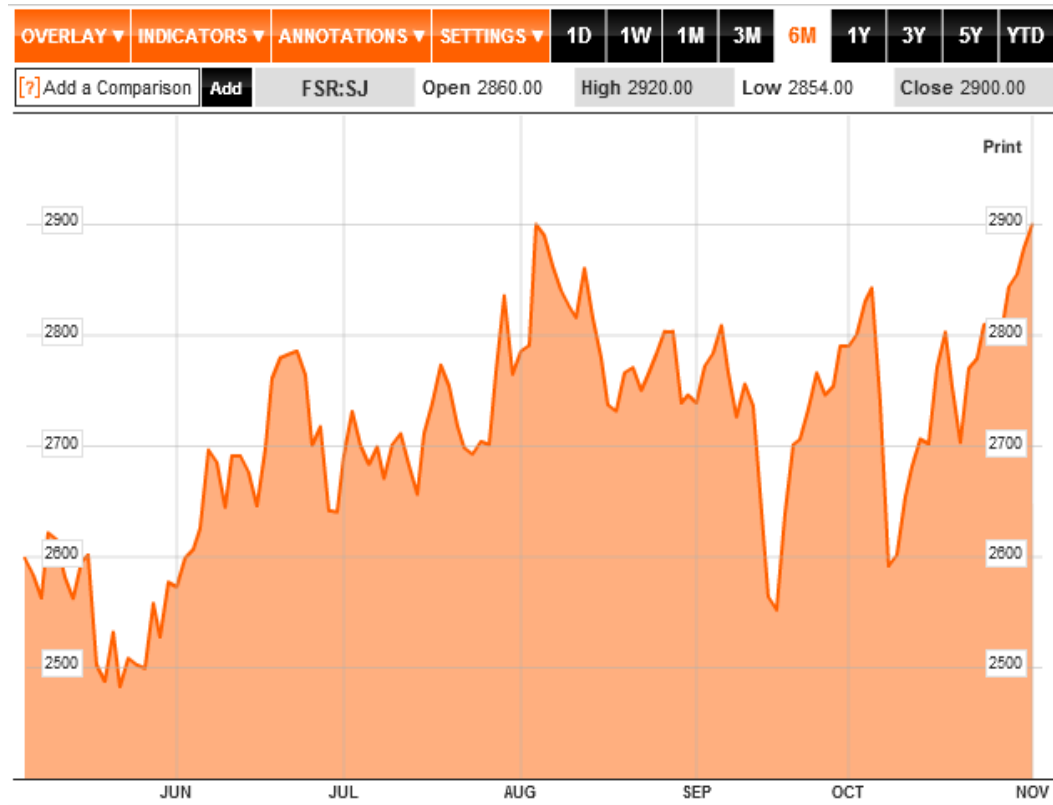
2.6 The Risk Of Ownership

Brown, Dietrich, Nuñez and Taylor (2013) found that willingness to take financial risk is positively correlated with both the incidence and success of business ownership. This relationship was particularly pronounced in cases where the individual actually started the business.

However, firms facing significant income volatility can often suffer from downside risk in such a way that their return on assets is insufficient to meet their fixed financial obligations. Turvey, Bogan, and Yu (2012) provide a prescriptive credit solution for small businesses facing this income risk.

Graph 2.1

Share Price Of Bank X Over Period Of Six Months



Source: www.bloomberg.com/quote

2.7 Effective Risk Management

Ludvig (2012) believes that effective risk management is essential to a company's well-being and must be given considerable attention and focus. Internal and external factors, including global economic uncertainty, rapid technological changes, and increasing regulatory challenges have made risk management a greater priority. Ludvig (2012) states that internal auditors must be risk-focused, cultivate a deep curiosity about risk, and read risk-related literature regularly.

Risk management is challenged in many ways by uncertainty. Our understanding of the world and its uncertainties is evolving and learning from experience involves untestable assumptions. Ben-Haim (2012)

argues that the use of models is justified, even though they are known to err. Another approach to follow when managing risk, is sharing the load.

2.8 Risk Sharing

With the trend of globalisation, one would think that countries would be in a position to leverage off each other and assist when needed. This should improve international risk sharing, but unfortunately empirical studies to support this notion, is lacking (Flood, Marion, & Matsumoto, 2012).

If a country cannot then go outside its boundaries to share its risk, another alternative is to share the risk with other internal stakeholders. Bonfiglioli (2012) found that in the presence of market tension, risk sharing makes investors more willing to take on entrepreneurial risk when investments are made, thereby improving the degree of risk sharing between investors and entrepreneurs. This leads to the insight that by increasing risk sharing, investor protection also induces more risk taking. By increasing entrepreneurial risk taking, thereby reducing the risk faced by entrepreneurs, it reduces their income irregularity.

2.9 Risk Strategy

Is it only a question of where you invest, or how you protect your investment? Hurrell (2012) argues that risk must be at the core of each firm's strategy. With globalisation firms are nowadays exposed to not only factors within the boundaries of the country, but also factors externally.

Picazo-Vela, Gutiérrez-Martínez, and Luna-Reyes (2012) argue that social media such as blogs, microblogs or electronic social networks can transform the ways in which people relate to each other and organizations. Government organizations are experimenting with social media to communicate with their constituents, and many analysts see in these types of media a powerful set of tools to reinvent government-

citizen relationships. The conclusions drawn by their analysis are that a good implementation strategy is necessary to realize these benefits and to avoid risks.

Information security is another critical risk that many firms face these days (Rhee, Ryu, & Kim, 2012). While increasing incidents of information security breaches have generated extensive publicity, previous studies repeatedly expose low levels of managerial awareness and commitment. Rhee *et al* (2012) further states that firms need more security awareness training and systematic treatments of security threats instead of relying on ad hoc approach to security measure implementation.

2.10 Loss Aversion

Loss aversion refers to a person's tendency to prefer avoiding a loss rather than acquiring a gain. People who are loss averse, weigh losses much more heavily than gains (Li, Kenrick, Griskevicius, & Neuberger, 2012). Economists and psychologists have researched these patterns of individual decision-making behaviour whereby losses and gains are treated quite differently (Feltovich, 2011).

Berkelaar and Kouwenberg (2009) studied the impact of different loss averse investors on asset prices. In very good states loss averse investors become gradually less risk averse as their capital raised above their reference point, pushing up equity prices. When their capital dropped below their reference point, the investors became risk seeking and demanded for stocks increases drastically, eventually leading to a forced sell-off and stock market bust in bad states.

O'Connell and Teo (2009) found that companies aggressively reduce risk following losses, and mildly increase risk following gains. This irregularity became more evident later in the calendar year and among

older and more experienced funds. This performance dependence was consistent with dynamic loss aversion and overconfidence.

2.11 Conclusion

Risk is the result of a loss due to an action that was done either by oneself or by another. Throughout the ages people have tried to control risk and protect themselves from these potential losses. Nowadays risk can take many forms and it can have a direct or indirect impact on an individual. For the purpose of this research, there will be looked at the risk profile of managers in banks. Their subjectivity will be explored as well as their ability to impact the policies of the employing bank.

CHAPTER 3

3. Research Propositions

3.1 Overview

For the purpose of this research, there will be looked at the risk profile of managers in banks. Their subjectivity will be explored as well as their ability to impact the policies of the employing bank. The focus will be on managerial risk aversion in the banking context of South Africa.

3.2 Research Propositions

Supporting the overall, broader research question, there are four narrower research propositions that will be tested. They are:

- 1) Bank managers have a low risk profile.
- 2) Bank managers from different banks would have similar levels of risk aversion.
- 3) A manager with a high risk profile will not be placed in a position in the bank where they may influence the policies and procedures.
- 4) Every manager in the bank will have a different perception of a person as having a high risk profile, risk is defined subjectively.

Due to the exploratory nature of the research, the researcher is open to more propositions, should they arise during the course of the data analysis.

3.3 Conclusion

After studying the literature available on risk, the most prominent item that needs to be explored is to see whether managers are risk averse. The next item of exploration would be the matter of consistency and objectivity regarding the risk aversion.

Chapter 4

4. Research Methodology

4.1 Introduction

The study is about the risk aversion profile of bank managers and the relation this hold to providing loans to people of different types of risk categories. In this chapter the research method will be discussed.

4.2 Research Methodology

The research was done in an exploratory way. Exploratory research is about discovering general information about a topic that is not understood clearly and where one is not yet prepared to launch into a full scale, in-depth research (Saunders & Lewis, 2012).

The aim of this research was not to explain causal relationships. Instead, this research aimed to lay the foundation for further research on the relationship between risk profile and organisational results. Such further research would draw on more representative samples and indicators of success such as share price for instance which is affected by a multiplicity of variables.

Even though the research posed propositions that were analysed in a quantitative manner, the overall approach of this research was inductive. The researcher observed patterns and repeated occurrences of phenomena which could be investigated further (Saunders & Lewis, 2012).

Due to time constraints, it was not possible to have done the research with a longitudinal design. One could have argued that it might have been ideal to take an organisation that is declining and put managers in the organisation who are risk embracing and then measure the growth of the organisation over the long term. Unfortunately, due to time constraints, this was not

possible. The research was done with a cross sectional design, spanning over a three month period during which a “snap shot” was taken of managers and their organisations.

4.3 Participants Of The Research Study

Sampling methods can be classified into two groups, either probability or nonprobability. In probability samples, the selection of the participants are done randomly. These random probability methods include simple sampling, stratified sampling, systematic sampling, and cluster sampling. In nonprobability samples, participants are not randomly selected. These methods include haphazard sampling (also known as convenience sampling), quota sampling, purposive sampling, snowball sampling, and self-selection sampling. The advantage of probability sampling is that each member of the population has an equal probability of being selected. With nonprobability sample it is not known to which degree the sample differs from the population (Neuman, 2000).

4.3.1 The Choice Of Participants

The population of this study was the banking industry of South Africa and the sample was a non-probability, self-selection sample. This meant that each member of the sample did not have an equal chance of being part of this research, because the sample members were asked to identify themselves as willing to take part in the research and had therefore not necessarily been an accurate representation of the population (Saunders & Lewis, 2012). The sample for this research consisted of managers in the home loans division of one of the big four banks in South Africa.

The choice of participants was limited to managers, due to the size of the banking industry. This study was also limited to the home loans division, due to the various types of investments and loans a bank could offer its clients. For the purpose of this study a home loan was seen as a sizeable investment which could constitute a significant commitment from

both the client and the bank, therefore it seemed like the appropriate measuring device to use when gaging the commitment of a bank towards a client.

4.3.2 The Number Of Participants

Initially it was aimed to obtain at least 50 respondents from managers within the bank. Due to various policies within the bank, it was not possible to obtain such a large sample of participants. The total number of banks that participated were four, and the total number of respondents were 33.

4.4 Research Instrument

Data collection can be done in various ways. Each method has its own benefits and drawbacks. The type of research (qualitative or quantitative) and the specific research question one asks, usually determines the appropriate data collection technique. When doing qualitative research, data is usually collected by doing interviews and using historical data. Data for quantitative research is usually collected by doing experiments, surveys, content analysis or by using existing statistics (Neuman, 2000).

Surveys are basically questions that are posed to a participant in a written format. There are no manipulation of a situation or condition, the participant partakes in the research on their own time, out of their own choice (Neuman, 2000).

For the purpose of this study, the process of using a survey was decided on. The anonymity of a survey was another appealing factor that led to this decision, because the researcher thought the topic of risk aversion and might be a sensitive topic and a participant might want to have their identity protected.

4.4.1 Rationale For Using The Risk Survey

For the purpose of this research it was decided to design an instrument that would measure the level of risk taking on a high level. Most questionnaires that were considered, did have risk as sub scale, but they were timely and they had cost implications. For these reasons it was decided to compile a survey which will be quick, cost effective and will measure specifically that which needed to be measured.

4.4.2 Description Of The Instrument

The Risk Survey (Appendix 1) consisted of four sections. The first section identified which bank the participant worked for. The second section assessed the participant's perception of their own risk aversion. The third section focused on the bank's perception of risk and the last section sketched five scenarios where the manager had to indicate the bank's level of risk aversion in each situation.

4.4.2.1 Comprehensibility

The survey was constructed in English and the vocabulary was easy to understand. Feedback from the pilot study participants confirmed not only the ease of understanding the survey, but also flow of the questions which followed a logical sequence.

4.4.2.2 Manageability

The survey was loaded onto the internet, and a web link was emailed to the participants. This enabled the participants to complete the survey at their desks in their own time. The survey took approximately three minutes to complete. It was not possible for one participant to do the same survey twice, once it has been completed, the link saved the respondents answers and then the respondent was thanked for their participation. So there was no room for a possibility of duplications.

4.4.2.3 Significance

The significance of this survey was that it was short and it was accessible. The feedback from the pilot group confirmed the ease of use and the simplicity of the instrument.

4.4.3 Reliability

The reliability of the Risk Survey was measured by correlating the four questions on risk aversion with each other, as shown on Table 4.1. The four items validated each other on the cross correlation. Most of the Pearson correlation coefficients were significant on the 0.1 and 0.5 level.

Table 4.1

Risk Survey Correlations

		3 - Enjoy taking risks	4 - Higher the risk, higher the reward	5 - Grow by taking risks	6 Gut- feel
3 - Enjoy taking risks	Pearson Correlation	1	.589**	.627**	.340
	Sig. (2-tailed)		.000	.000	.061
	N	31	31	31	31
4 - Higher the risk, higher the reward	Pearson Correlation	.589**	1	.776**	.440*
	Sig. (2-tailed)	.000		.000	.013
	N	31	31	31	31
5 - Grow by taking risks	Pearson Correlation	.627**	.776**	1	.600**
	Sig. (2-tailed)	.000	.000		.000
	N	31	31	31	31

6 Gut-feel	Pearson Correlation	.340	.440*	.600**	1
	Sig. (2-tailed)	.061	.013	.000	
	N	31	31	31	31
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

4.4.4 Development Of The Survey

4.4.4.1 Pilot Phase

The survey was designed and a few people were asked to complete it. The feedback was taken in account and the changes were made. After the pilot phase the survey was submitted for ethical clearance.

4.4.4.2 Ethical Clearance

As per guidelines, the survey was submitted to the Research Ethics Committee of the Gordon Institute of Business Science for clearance. Clearance was granted and then the collection of the data began.

4.5 Gathering The Data

The process of gathering the data could be broken down in the following steps:

- 78 emails were circulated to relevant managers. On these emails 28 respondents completed the survey. All the surveys could be used.
- A cover page was used stating that the respondents voluntarily participated in the research and that it was anonymous

- Five respondents didn't complete the questionnaire online, they printed it out and it was captured by hand
- The final amount of participants were 33

4.6 Process of Data Analysis

4.6.1 Type of Data

The type of data that were used in this research was quantitative, ranked, categorical data. This was data that could be put into a specific order (Albright, Winston & Zappe, 2009).

4.6.2 Data Cleaning

The data was imported into Microsoft Excel and then it was prepared for analysis. During this process, some of the data were grouped together and some of the data was allocated a certain weighting. The data was also checked for any errors or outliers.

4.6.3 Presenting the Data

The data was analysed and presented in various formats such as pie charts, a scatterplot, a histogram and tables. By visually presenting the data, one could then see the various relationships between the constructs and the numbers.

4.6.4 Data Analysis

For describing a variable with statistics, on categorical data, one should have used the mode to describe the central tendency which represents the category that occurs most often (Saunders & Lewis, 2012). However, with the limited number of observations obtained in this research, it was not advisable to run too many statistical tests. The exploratory nature of the research gave room to the researcher to analyse the data on a more

inductive manner. The unit of analysis used, was the number of individual responses. In Table 4.2 is a presentation of the propositions and their supporting literature. It also indicates which proposition relates to which question in the survey (Appendix 1) and in the last column there is a brief summary of the method of analysis that was used.

Table 4.2

Data analysis

Proposition	Literature Review	Data Collection Tool	Analysis
<i>Bank managers have a low risk profile</i>	Wilkins (1999) Gervais, Heaton, & Odean, (2011) Panousi & Papanikolaou, (2012)	In questionnaire, Question 3,4,5 & 6	Cross tabulation on close ended questions, weightings given to responses
<i>Bank managers from different banks would have similar levels of risk aversion</i>	Berkelaar & Kouwenberg (2009)	In questionnaire, Question 1,3,4,5 & 6	Cross tabulation on close ended questions, weightings given to responses
<i>A manager with a high risk profile will not be placed in a position in the bank where they may influence the policies and procedures</i>	Rajapakse & Siriwardana (2007)	In questionnaire, Question 2,3,4,5 & 6	Scatterplot analysis done on variables
<i>Every manager in the bank will have the same perception of a person as having a high risk profile, risk is not defined subjectively</i>	Sitkin & Weingart (1995) Goldsmith (2001) Davies (2009)	In questionnaire, Question 12	Cross tabulation on close ended questions, weightings given to responses

4.7 Limitations

The limitations of the research methodology that was followed, was firstly the narrow data set. Secondly, with the survey there was not as much detail gathered as one would have gathered with other methods, such as

interviews. By using a survey, the research was also prone to elicit a response bias, which is when the tendency arises where the questions are answered in a socially acceptable manner (Cummings & Worley, 2008). Lastly, the sampling method of using a non-probability self-selection sampling set, also exposed the research to the possibility of a self-selection bias, which is a bias that occurs when those participating in the research are systematically different from those who are not participating (James, 2006).

4.8 Conclusion

In this chapter the research method was discussed. There was looked at the participants, the research instrument and how the data was gathered. The process of analysing the data was also discussed and there was also briefly looked at the limitations of the research method.

CHAPTER 5

5. Results

5.1 Introduction

The results of the survey were captured either via the internet or manually by using the software of SurveyMonkey™. SurveyMonkey™ allows its users to extract raw data to other programs on which data analysis can be done, such as Microsoft Excel.

In this research, the raw data was extracted from Survey Monkey into Microsoft Excel. Once all the data was collected into one spread sheet, the first task was to clean the data. All the participant's banks were grouped together and their identities were masked, to ensure anonymity.

The Risk Survey had to be coded, so each question got a weighting. The weightings are displayed in Table 5.1.

Table 5.1

Weightings Applied To The Risk Survey

Response	Weighting
First Section:	
<i>No</i>	1
<i>In a limited way</i>	2
<i>Sometimes</i>	3
<i>To some extent</i>	4
<i>Yes</i>	5
Second Section:	
<i>Not at all</i>	1
<i>In a limited way</i>	2
<i>Sometimes</i>	3
<i>To some extent</i>	4

<i>Always</i>	5
Third Section:	
<i>No risk</i>	1
<i>Low risk</i>	2
<i>Medium risk</i>	3
<i>High risk</i>	4

By coding the answers, it enables the researcher to quantify a respondent's answer and it allows the researcher to visually plot the responses on a graph.

5.2 Descriptive Data

5.2.1 Participants

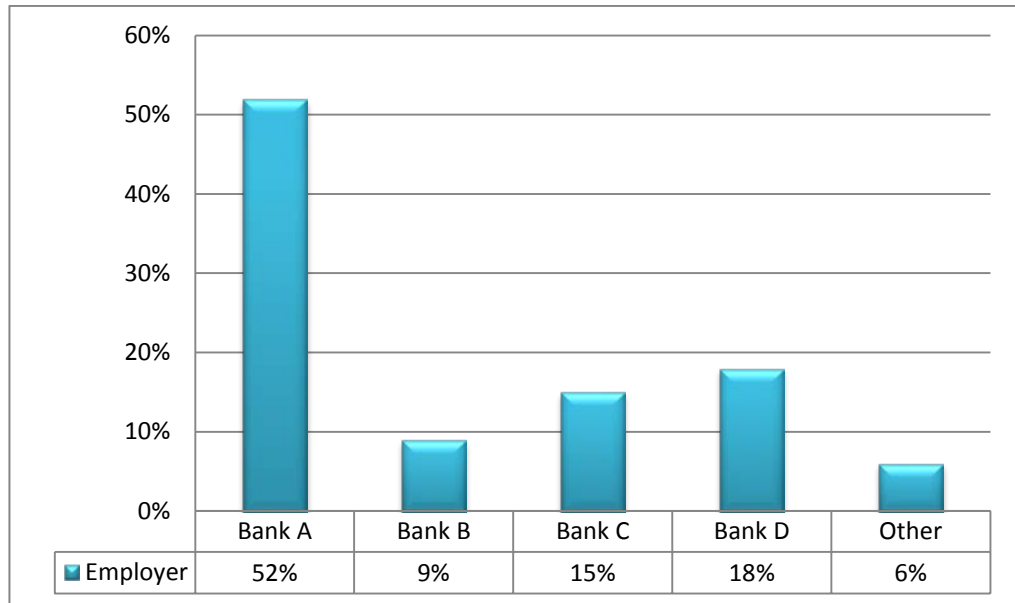
This research was conducted on 33 volunteers of whom one participant withdrew their participation. That left the surveyed sample with a total of 32 participants.

These participants were individually contacted and the survey was completed via the internet. Due to confidentiality, the employing bank's name will not be disclosed, but as shown in Graph 5.1, it can be seen that responses from Bank A was much higher than the other banks.

In Graph 5.1 it is evident that the highest response was from Bank A at 52%, while the lowest response was from Bank B, at 9%. The 6% respondents who indicated themselves as being "other" were participants who were on contract within the home loans division and they felt that they did not belong to the "retail arm" of the employer, so they would rather describe themselves as a separate entity. There was a response rate of 15% from Bank C, which was average and 18% from Bank D.

Graph 5.1

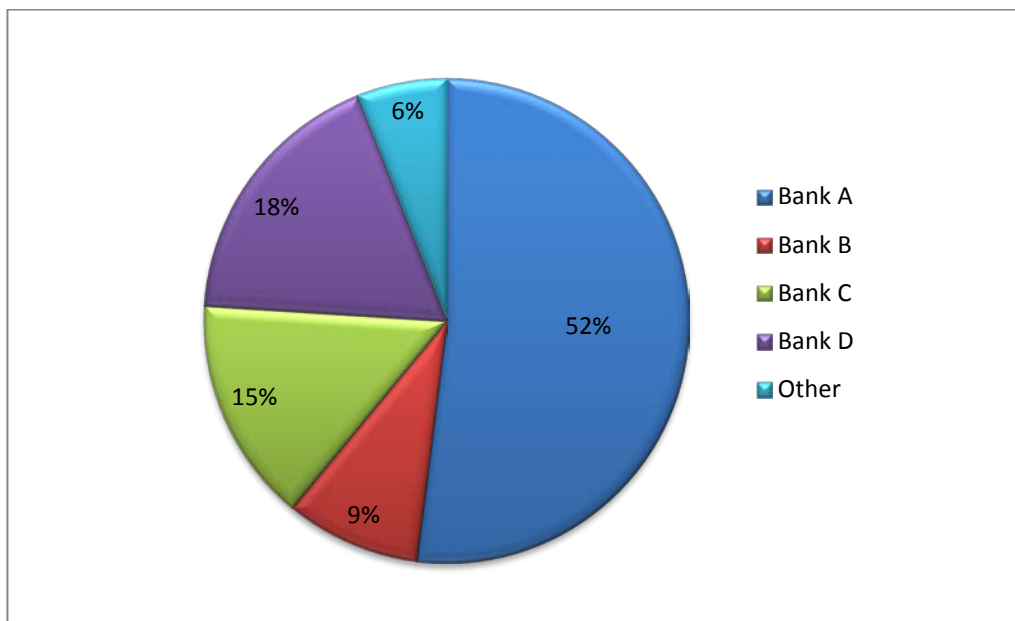
Which Bank Do You Work For (Employer)?



By plotting the data onto a pie chart, as can be seen on Chart 5.1, one can see that the majority of responses did come from Bank A. Bank C and Bank D had a similar response rate, while Bank B had the lowest percentage of responses.

Chart 5.1

Which Bank Do You Work For (Employer)?



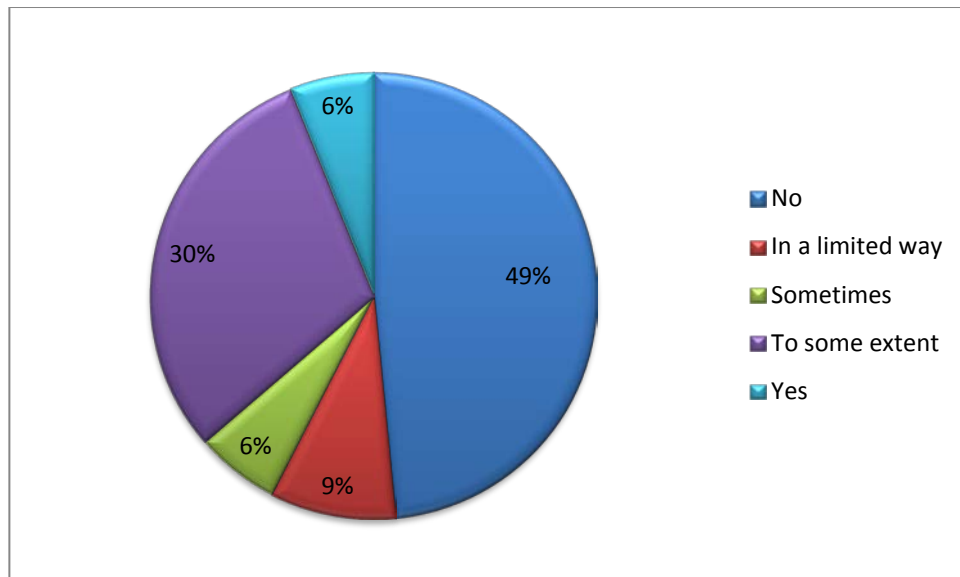
5.2.2 Risk Survey: Personal Risk Appetite

The results of the Risk Survey are divided into two main sections, the first section is displayed in Table 5.2 and it indicates the risk appetite of the individual manager that is employed in the bank.

On the first question, as depicted in Chart 5.2 illustrates that on the question: “Can you influence the policies/procedures the bank use to qualify whether a project/person would be accepted as a potential investment?” the majority (48.5%) of respondents said no, they cannot.

Chart 5.2

Question 1: Can you influence the policies/procedures the bank use to qualify whether a project/person would be accepted as a potential investment?



On the second question: “Do you enjoy taking risks?” the majority (71%) of respondents said they do enjoy it, to some extent. This is illustrated in Chart 5.3.

Chart 5.3

Question 2: Do you enjoy taking risks?

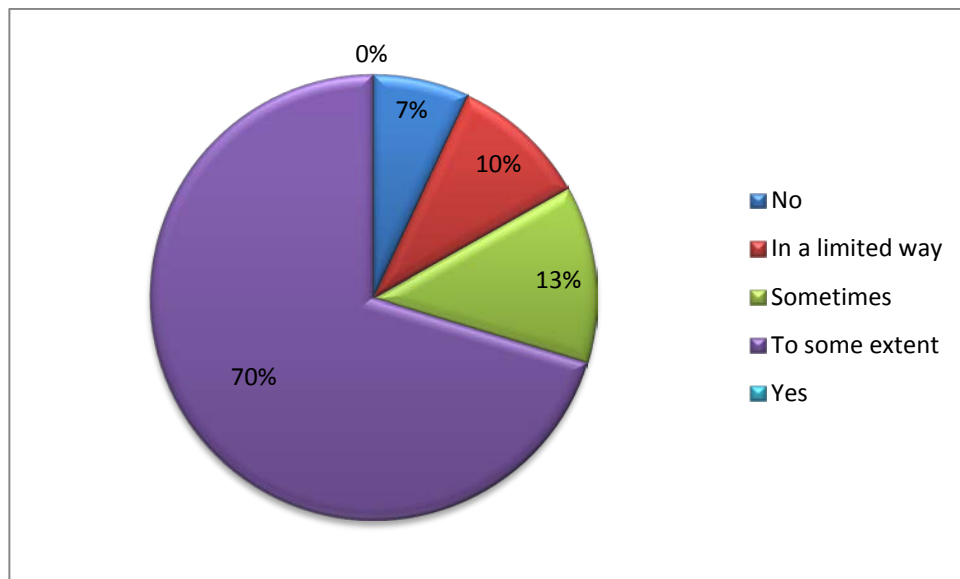


Chart 5.4 illustrates the responses to question three, where 54.8% of the respondents said that they believed to some extent that the higher the risk, the higher the reward.

Chart 5.4

Question 3: Do you believe that the higher the risk, the higher the reward?

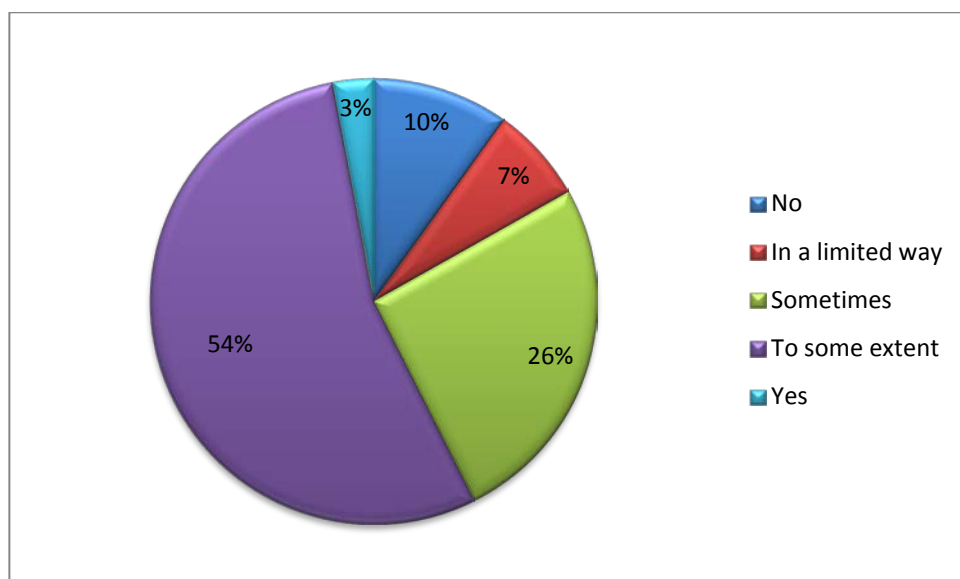
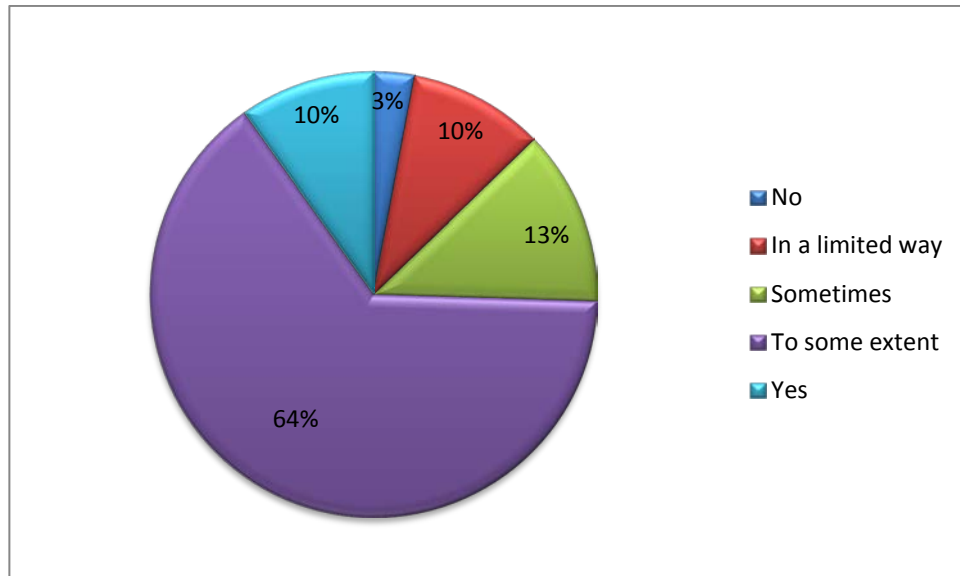


Chart 5.5

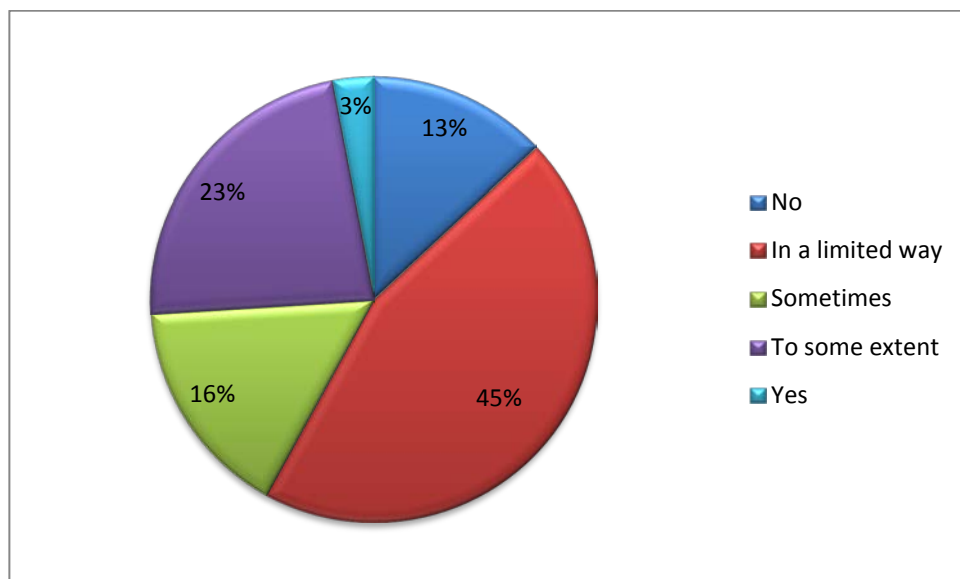
Question 4: Do you believe you can grow by taking risks?



On the fourth question, as illustrated in Chart 5.5, there is 64.5% of the respondents believed that they can, to some extent, grow by taking risks.

Chart 5.6

Question 5: Can you make a risky decision on your gut feeling, without gathering all the possible relevant facts?



The last question is shown on Chart 5.6: “Can you make a risky decision, based on your gut-feeling, without all the possible relevant facts?” the majority (45.2%) of respondents said that they can only do it in a limited way.

The combined results of the first section of the Risk Survey are displayed in Table 5.2 and it indicates the risk appetite of the individual manager that is employed in the bank. From the data, it can be seen that 71% of the managers enjoy taking risks and they also believe that they can grow from taking these risks. The data however shows that the participating managers cannot influence the policies and procedures of the bank.

Table 5.2

Risk Survey: Personal Risk Appetite

Question 1	Can you influence the policies/procedures the bank use to qualify whether a project/person would be accepted as a potential financial investment?				
	No	In a limited way	Sometimes	To some extent	Yes
	48.5%	9.1%	6.1%	30.3%	6.1%
Question 2	Do you enjoy taking risks?				
	No	In a limited way	Sometimes	To some extent	Yes
	6.5%	9.7%	12.9%	71.0%	0%
Question 3	Do you believe that the higher the risk, the higher is the reward?				
	No	In a limited way	Sometimes	To some extent	Yes
	9.7%	6.5%	25.8%	54.8%	3.2%
Question 4	Do you believe that one can grow by taking risks?				
	No	In a limited way	Sometimes	To some extent	Yes
	3.2%	9.7%	12.9%	64.5%	9.7%
Question 5	Can you make a risky decision, based on your gut-feeling, without all the possible relevant facts?				

	No	In a limited way	Sometimes	To some extent	Yes
	12.9%	45.2%	16.1%	22.6%	3.2%

5.2.3 Risk Survey: Bank's Risk Appetite

The second section of the Risk Survey is displayed in Table 5.3 and it indicates the risk appetite of the bank as perceived by the managers they employ.

On the first question, as seen on Chart 5.7, 48.4% of the managers believed that the bank is to some extent being transparent regarding their perception of high risk ventures

Chart 5.7

Question 1: Regarding the bank's perception of high risk ventures; do you believe they are being transparent?

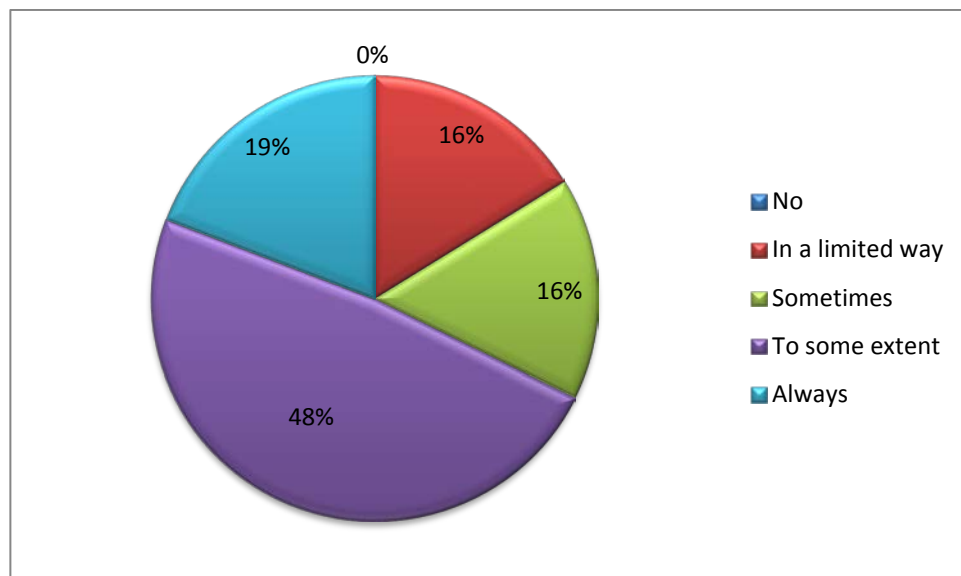
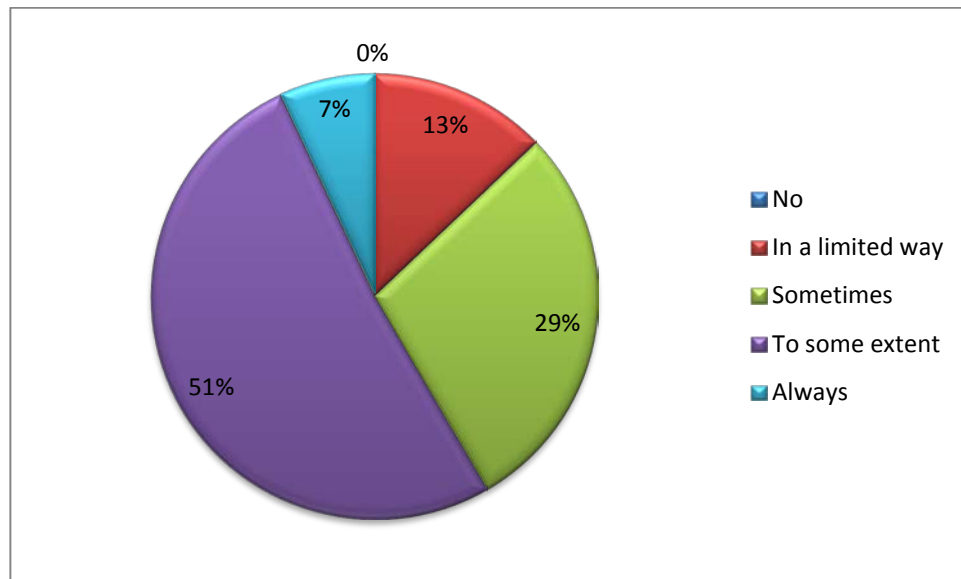


Chart 5.8 show that on the second question, regarding the bank's perceptions of high risk ventures, 51.6% believed that the bank is to some extent being consistent.

Chart 5.8

Question 2: Regarding the bank's perception of high risk ventures; do you believe they are being consistent?



On the third question, Chart 5.9, regarding the bank's assessment of high risk ventures, 48.4% believed that the bank is to some extent being accurate.

The fourth question asked if the managers believed that the bank is being fair in their assessment of high risk ventures, and 45.2% believed that the bank is fair to some extent. This is illustrated in Chart 5.10.

On the last question, as seen on Chart 5.11, 51.6% believed that the bank were to some extent rational in their assessment of high risk ventures.

Chart 5.9

Question 3: Regarding the bank's perception of high risk ventures; do you believe they are being accurate?

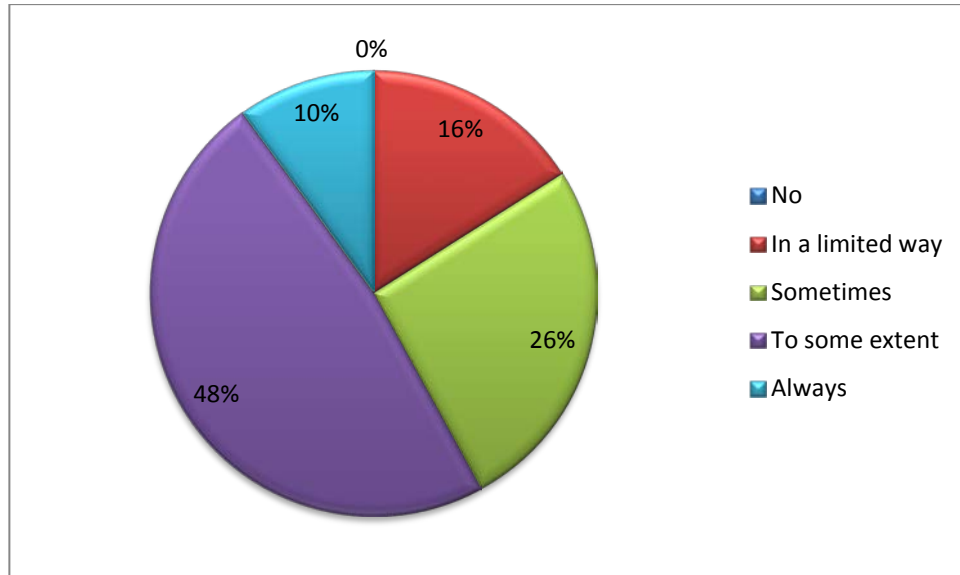


Chart 5.10

Question 4: Regarding the bank's perception of high risk ventures; do you believe they are being fair?

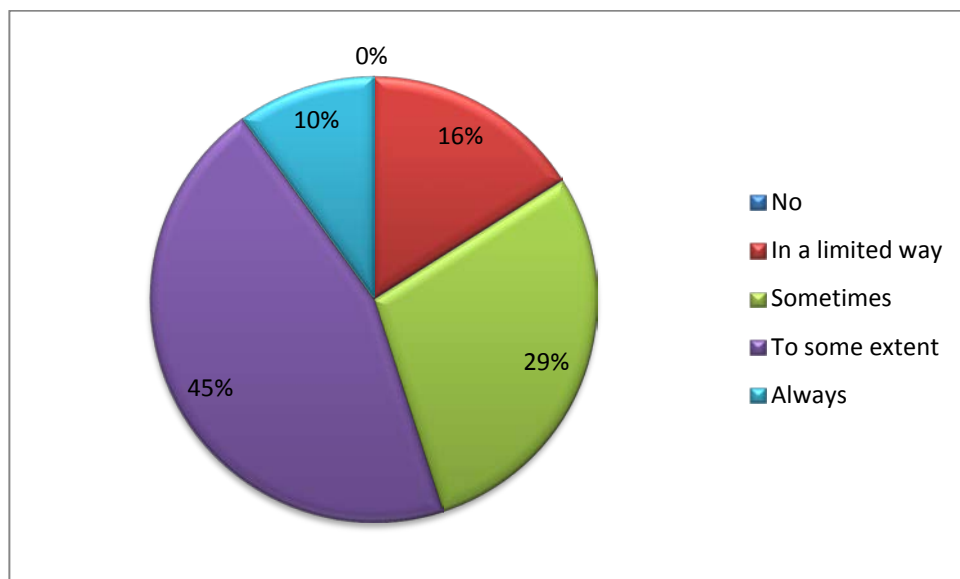
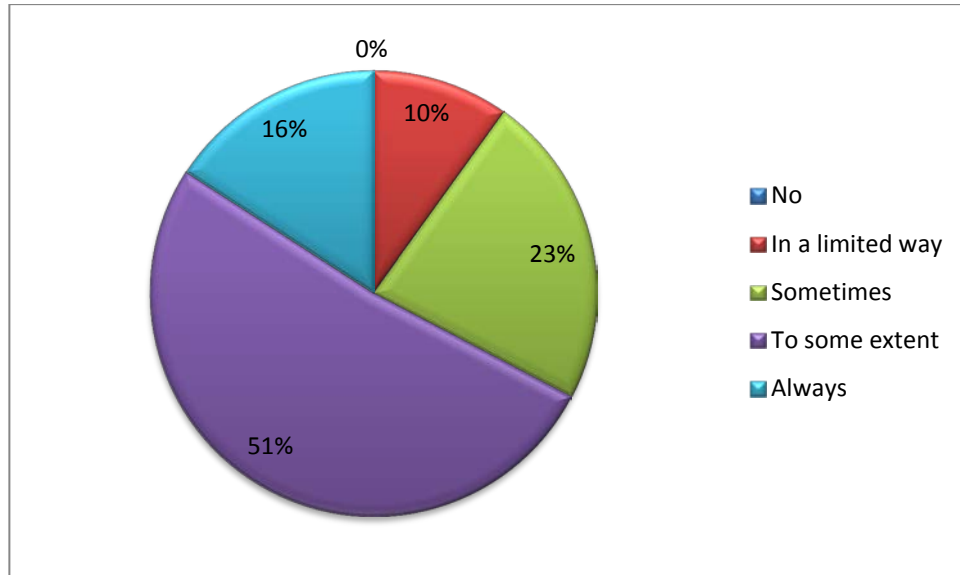


Chart 5.11

Question 5: Regarding the bank's perception of high risk ventures; do you believe they are being rational?



The second section, as just discussed, of the Risk Survey is displayed in Table 5.3 and it is a consolidated data sheet that indicates the risk appetite of the bank as perceived by the managers they employ.

Table 5.3

Risk Survey: Bank's Risk Appetite

Question 1	Regarding the bank's perception of high risk ventures; do you believe they are being transparent?				
	No	In a limited way	Sometimes	To some extent	Always
	0%	16.1%	16.1%	48.4%	19.4%
Question 2	Regarding the bank's assessment of high risk ventures; do you believe they are being consistent?				
	No	In a limited way	Sometimes	To some extent	Always
	0%	12.9%	29%	51.6%	6.5%

Question 3	Regarding the bank's assessment of high risk ventures; do you believe they are being accurate?				
	No	In a limited way	Sometimes	To some extent	Always
	0%	16.1%	25.8%	48.8%	9.7%
Question 4	Regarding the bank's assessment of high risk ventures; do you believe they are being fair?				
	No	In a limited way	Sometimes	To some extent	Always
	0%	16.1%	29%	45.2%	9.7%
Question 5	Regarding the bank's assessment of high risk ventures; do you believe they are being rational?				
	No	In a limited way	Sometimes	To some extent	Always
	0%	9.7%	22.6%	51.6%	16.1%

5.2.4 Scenario Analysis Of Risk

5.2.4.1 Collective Responses

Five different scenarios were given to the participants, as seen in Table 5.4, and they were asked to indicate whether they thought the candidates in these scenarios would qualify as either a high risk, medium risk, low risk or no risk. In Table 5.4 the total data of all the participants are shown, it is not divided up into individual responses.

On a collective whole, in the first scenario the majority of participants (58.1%) felt that this would be a medium risk.

The second scenario had a slightly divided opinion, there were 58.1% who said it was a high risk, while 41.9% said it was a medium risk.

The third scenario was about an entrepreneur, such as a street hawker who earns cash on a daily basis. The majority of

participants (77.4%) indicated these entrepreneurs as being a high risk.

In the fourth scenario, where it was about someone without a tertiary education and no work experience, the collective majority (40%) of respondents indicated that these applicants would be a low risk.

The last scenario was about a person with work experience, but without an education. The majority (54.8%) said that these people would be a medium risk.

Table 5.4

Scenario Analysis

Within the South African context, would your employer (the bank) rate the following clients as high risk, or low risk (with regards to the bank making a financial investment in the individual in the form of a home loan)?

		No Risk	Low Risk	Medium Risk	High Risk
<i>Scenario 1</i>	Someone earning less than R10,000 per month	3.2%	19.4%	58.1%	19.4%
<i>Scenario 2</i>	A worker earning wages, but not a fixed monthly salary	0%	0%	41.9%	58.1%
<i>Scenario 3</i>	An entrepreneur earning daily cash (such as a street hawker)	0%	0%	25.8%	77.4%
<i>Scenario 4</i>	Someone without a tertiary education and no work experience	3.3%	40%	23.3%	33.3%
<i>Scenario 5</i>	A person with work experience, but without an education	6.5%	32.3%	54.8%	6.5%

The collective results, as presented in Table 5.4, shows that the lowest risk is perceived to be scenario four: someone without a tertiary education and no work experience. The highest perceived risky scenarios seem to be both scenario two: a worker earning wages, and scenario three, an entrepreneur earning cash.

5.2.4.2 Divided Data

By dividing the participants into their respective banks, it can be seen that there seems to be some significant trends, as seen in Table 5.5.

Table 5.5

Scenarios Divided Per Bank

	Bank A	Bank B	Bank C	Bank D
<u>First Scenario</u>				
No Risk	6%	0%	0%	0%
Low Risk	28%	50%	0%	0%
Medium Risk	39%	50%	100%	80%
High Risk	28%	0%	0%	20%
<u>Second Scenario</u>				
No Risk	0%	0%	0%	0%
Low Risk	0%	0%	0%	0%
Medium Risk	33%	100%	60%	40%
High Risk	67%	0%	40%	60%
<u>Third Scenario</u>				
No Risk	0%	0%	0%	0%
Low Risk	0%	0%	0%	0%
Medium Risk	17%	0%	60%	40%
High Risk	83%	100%	40%	60%
<u>Fourth Scenario</u>				
No Risk	6%	0%	0%	0%
Low Risk	22%	100%	80%	20%
Medium Risk	28%	0%	20%	20%
High Risk	44%	0%	0%	60%

Fifth Scenario				
No Risk	11%	0%	0%	0%
Low Risk	22%	50%	60%	20%
Medium Risk	56%	50%	40%	80%
High Risk	11%	0%	0%	0%

From the data presented in Table 5.5, it seems likely to postulate that overall Banks A and D may possibly be more inclined to rate an individual as a high risk than Banks B and C. However, this data needs to be read with caution, given the small sample sizes represented by this study.

5.3 Research Propositions

5.3.1 Relationship Between Risk and Decision-Making

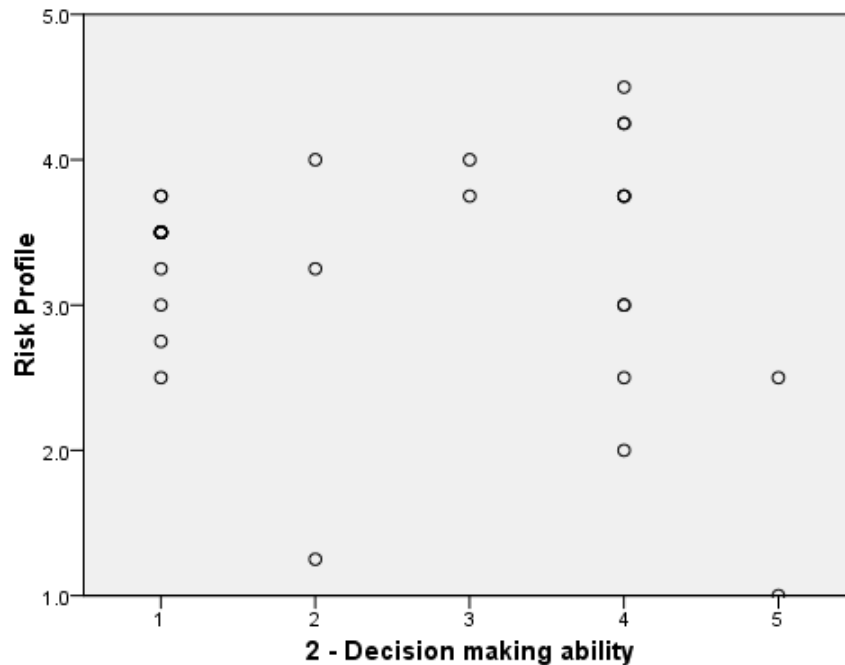
The research proposition that was posed was that a manager with a high risk profile will not be placed in the bank where they can influence policies and procedures. The two fields that were correlated to explore this proposition was firstly the risk appetite of the participant and secondly the decision making ability (question number two on the survey).

The correlation obtained was -0.14. This indicates that there is a very small correlation between risk appetite and decision making ability. By plotting this visually, as depicted on Graph 5.2, one can see a very scattered spread which indicates the low correlation.

If there were a correlation between the two variables, there would've been an indication of a line going diagonally either from left to right, or from right to left, indicating either a positive or a negative correlation. The scattered spread of responses as seen in Graph 5.4 indicates that there is not a significant relationship between risk appetite and decision making ability.

Graph 5.5

Correlation Between Risk Profile and Decision Making Ability



5.3.2 Risk Comparison Of Banks

Another research proposition that was posed, was that every manager in the bank will have a unique perception of a person as having a high risk profile, in other words, risk is defined subjectively. With the low number of respondents it is not advisable to have done too many statistical tests on the data, but still, one can interpret some trends.

The data presented in Table 5.5 indicates five different scenarios. Different managers from different banks were asked to rate these scenarios as either high risk, medium risk, low risk or no risk. If the proposed researched proposition were false, then there would've been consensus amongst all the respondents across the banks. All the managers, across all the banks would have classified each scenario the same way. This is however not the case, as can be seen in Table 5.5.

The first example is the first scenario; Bank D will classify this as a medium or high risk, but Bank B will classify it as a medium or low risk. In the fourth scenario both Banks A and D seems to be leaning more towards classifying it as a high risk, while Banks B and C classify it as a low risk.

Another example is the fifth scenario, within Bank A, there are some managers who will classify it as a high risk, while other managers will classify it as a no risk.

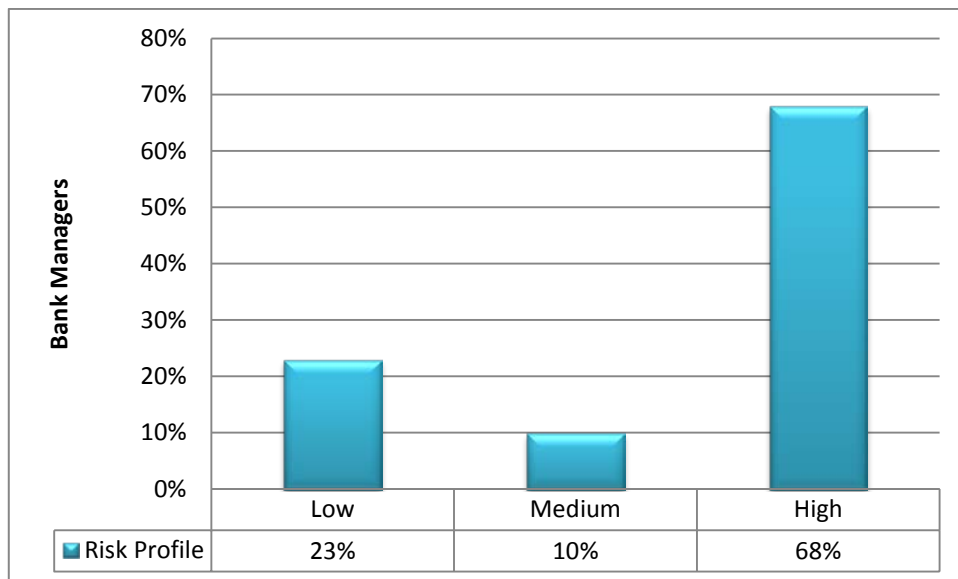
The second and third scenario does seem to have more of a trend amongst the banks, but it is still not conclusive enough to support the proposition that every manager in the bank will have the same perception of a person as having a high risk profile. Risk, in other words, is defined subjectively.

5.3.3 Bank Managers Have A Low Risk Profile

On Graph 5.6 is a visual representation of the bank managers' risk profile. From the surveyed sample the majority of respondents measured as having a high risk profile. This means that 68% of the sample are individuals who will most probably enjoy taking risks, they will also believe that the higher the risk, the higher the reward, that one can grow by taking risks and that one can a risky decision based on one's gut feeling, without gathering all the relevant facts. There was 23% of the sample who measured low on the Risk Survey, this is an indication of risk aversion and 10% was neither high nor low risk.

Graph 5.6

Risk Profile Of Bank Managers



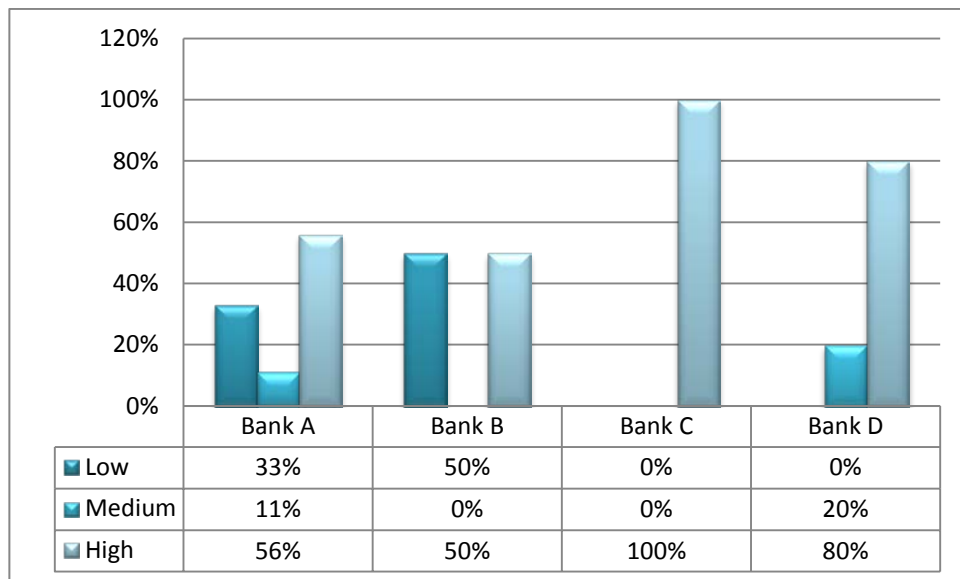
5.3.4 Bank Managers From Different Banks

The next research proposition, was that bank managers across different banks will have the same risk profile. On Graph 5.7 the risk profile of all the managers from the banks are displayed. It is evident from the data that there is not a clear trend one can follow. This can be due to the small sample size, but still one can see from the data that it seems most likely that bank managers would differ between banks.

Graph 5.7 shows that Bank C has the majority of high risk takers, whereas Bank A has a more balanced combination of risk takers and risk averse respondents. It is interesting to note that in Bank D, there are risk takers and then there are a cautious group.

Graph 5.7

Bank Managers From Different Banks



5.4 Conclusion

In this chapter the data which was gathered was presented. The raw data was gathered via the Internet, it was cleaned up and weightings were allocated to the different responses. The descriptive data was discussed and it was evident that the majority of the managers came from Bank A. It was also clear that the bank managers who participated in this study, had a high risk appetite. Different scenarios were presented to them and the highest perceived risky scenario seemed to be a worker earning wages. When the risk profile of the bank managers of the different banks were plotted against each other, no significant trend was evident.

CHAPTER 6

6. Discussion of Results

6.1 Introduction

This chapter will be focused on the discussion of the results that were found in this research study. The various research propositions and the integration of these with the data that was presented in the previous chapter will be explored.

6.2 Discussion of Propositions

This study proposed four research propositions. The first one was that bank managers have a low risk profile; the second one was that bank managers from different banks would have similar levels of risk aversion; the third one was that a manager with a high risk profile will not be placed in a position in the bank where they may influence the policies and procedures and the last proposition was that every manager in the bank will have a unique perception of a person as having a high risk profile - risk is defined subjectively. Next, each of these propositions will be discussed individually.

6.2.1 Bank Managers have a Low Risk Profile

Wilkins (1999) proposed that in companies risks are avoided, because they cannot afford to incur any further losses. Intuitively it does make sense to argue that one needs to be cautious within turbulent economic times, to use resources carefully and avoid unnecessary losses. This seems to be a widely accepted norm (Gervais, Heaton, & Odean, 2011; Panousi & Papanikolaou, 2012).

O’Connell and Teo (2009) found that companies aggressively reduce their risk following losses, but they mildly increase their risk again following gains. This phenomena where there is an up and down pattern of risk aversion and risk appetite was also studied by Berkelaar and Kouwenberg (2009).

However, for the purpose of this study, the research proposal was that bank managers would be risk averse, due to the pressurised economic times we are in now (Amalia, Ionut, & Mihaela, 2012). The rationale behind the proposal is that when the economy is pressurised, then managers would be less inclined to take risks, so they would be risk averse.

Literature supports both sides of the argument. Watkins and Rietsema (2012) have found that companies who have managers who take risks are more likely to implement dynamic strategies, where these dynamic strategies support the growth of the company. So, the literature did pose the probability that there might be managers who have a risk appetite.

The results of this research found that 68% of the participating managers in this study had a self-reported high risk profile, as determined by the Risk Survey. There were 23% managers who had a low risk profile. So, the majority of the bank managers had a high risk appetite. This was contrary to what was speculated before the research was done.

Even though the literature did give evidence to both sides of the coin, the results were still fascinating. One could speculate that due to a self-selection bias, the participants who decided to participate in a “Risk Survey” might inherently be risk seeking individuals.

The other possibility is that the bank uses external controls to regulate the decisions of the staff. This means that regardless of the risk appetite of the individual, the external controls, such as the bank policies, will regulate their behaviour. So it would not matter to the bank if it is employing high risk or low risk individuals, because it would be the

system that regulates the overall function of the company, not the individuals.

However, the purpose of this study was to explore the measure of risk appetite a bank manager within the South African banking context would have. It was found that the majority of participants in this study had a self-reported high risk profile.

6.2.2 Bank Managers from Different Banks

This second research proposition was that bank managers from different banks would have similar levels of risk aversion. The research done by Berkelaar and Kouwenberg (2009) suggests that the behaviour of managers would be similar across companies within the same industry.

The results obtained by this research, as displayed in Graph 5.6, indicates that the overall combined profile of all the managers are a high risk profile. When the results are divided up, per bank (Graph 5.7), the initial impression is that the results are very random. There is no clear trend evident in the data. This could be due to the small sample size, but one can still make some deductions on the data.

From the data, it seems as if the participants from Bank A and Bank B are diverse in as far as some managers are risk averse and some other managers have a high risk profile. However, the participants of Bank C and Bank D are mostly risk taking. This leads us to the conclusion that one half of the banks that participated in the study had an even spread between high and low risk profiles, and the other half had mostly high risk managers.

This is not conclusive evidence to support the proposition that managers from all the banks will be the same. There are trends and similarities, but there is not a clear indication which one can use to support the proposition.

This leads the researcher to speculate that the context of the manager may also play a role in their risk aversion. In the larger economical context, the managers are all exposed to the elements of the South African banking environment, but within each bank there could be a different set of circumstances.

However, one can also argue that risk is cyclical and dynamic (Berkelaar & Kouwenberg, 2009). The patterned motion of behaviour closer to and away from risk could also imply that a person's risk aversion is not static, but rather wave-like. If this is true for the individual, it could then also be true for a group of individuals. The research that was done in this study was cross sectional, not longitudinal, so the possibility is that should one measure the risk profiles of the managers again after a period of time, then one might see a reversed picture. Where Bank A and Bank B are now evenly distributed, it may become uneven again; and Bank C and Bank D might then be at a place where they are evenly distributed.

The data however indicates at this point in time, that the bank managers with high risk profiles are representative from each bank. The managers with low risk profiles are only represented by Banks A and B. There is therefore no clear evidence that can neither support nor dispute the stated research proposition.

The conclusion then is that bank managers may have similar levels of risk aversion, but risk is dynamic and can fluctuate (Berkelaar & Kouwenberg, 2009), which then leads to a dissymmetry between the profiles of the banks.

6.2.3 Bank Managers and Decision Making

The third proposition was that a manager with a high risk profile will not be placed in a position in the bank where they may influence the policies and procedures. This high risk can also be seen as an over-optimism bias, which can influence a manager's short term judgement (Rajapakse & Siriwardana, 2007).

The data gathered in this study was presented in Graph 5.5 and it was evident that there was no clear correlation between risk behaviour and decision making. This evidence has led the researcher to believe that there might be more stringent policies in place that banks use to protect its assets. By designing policies that are risk-proof, the bank can place itself in a position where it can employ any person with any level of risk aversion.

These policies were not researched in this study, but literature suggests that one must be risk aware when making policies (Baker, 2011). It would be interesting to research the high risk managers attitudes towards these policies, because if these policies are dynamic and they assist with the day-to-day decision making (Blakely, 2009), then these high risk managers would be satisfied in their position, regardless of the fact that they cannot influence the policies.

If the opposite is true and the policies are very restrictive, then there would be the possibility that the high risk managers would be frustrated, whereas the low risk managers might be more comfortable operating in such a regulated environment. One should however bear in mind that a regulated environment is there to protect the bank's resources (Nishiyama, 2006).

Literature supports the idea that one should employ people with a high risk profile, because they are more likely to implement dynamic strategies which will accommodate and support the growth of the company (Adeyemi-Bello, 2001; Watkins & Rietsema, 2012). So one is in a situation where both a high risk manager and a risk averse manager would be beneficial to the bank, but the high risk manager would most probably be the best one to design the policies and procedures.

The proposition that high risk managers are not placed in a position in the bank where they can influence the policies could not be substantially

proven. Literature however does suggest that high risk individuals should be involved in the designing of policies and procedures (Adeyemi-Bello, 2001; Watkins & Rietsema, 2012).

6.2.4 Risk is Defined Subjectively

The last proposition was that every manager in the bank will have a unique perception of a person as having a high risk profile - risk is defined subjectively. Research done by Davies (2009) supports the proposition that risk is a subjective matter. We can postulate that two people will look at the same scenario and assess the risk in two different ways.

The research posed five different scenarios to the participating bank managers and they were asked to rank the risk level of each. In Table 5.4, it can be seen that there is one certain scenario on which most of the managers agree: the scenario where an entrepreneur is earning cash. This is very interesting within the South African context, because South Africa has many entrepreneurs who are making a living from earning cash daily, such as security car guards, taxi drivers, street hawkers and traditional healers. These types of entrepreneurs make a living by filling an institutional void which is created by other factors which are not relevant to this study. Be that as it may, these entrepreneurs are making a living and there is no short-term threat to their income - their clients don't have an alternative. Therefore, it is interesting that 77% of the bank managers in the survey classified these entrepreneurs as a high risk.

When the data was divided up in responses according to the bank, it was also interesting to note that some of the banks did seem to be more risk averse than others. Banks A and D was more likely to rate a scenario as risky than participants from Banks B and C.

The one specific scenario, concerning a worker earning wages, had a particular interesting response from the different banks. In Table 5.5 it can be seen that the second scenario is split between a medium risk and a high risk. Bank A and D see this scenario as a high risk, whereas Bank B and C see this scenario only as a medium risk.

The data do support the proposition that to some extent risk is defined subjectively. Managers from different banks may interpret the same scenario differently, but there seems to be an overarching consensus. However, when it comes down to the details of the event, there are differences.

Literature also supports this proposition. The amount of information you have regarding a situation, your previous experience and the amount of resources you need to commit, all contribute to the level of risk one will attribute to a given event (Bell, 1983; Sitkin & Weingart, 1995; Goldsmith, 2001).

The conclusion is then that the last research proposition was not only supported by the data that was gathered, but also by literature. It can therefore be said that risk is a subjective concept.

6.3 Limitations

6.3.1 Limitations On The Literature Study

The research literature available on the subject of risk is vast. There are many themes and related topics that are interesting to explore. The limitation is however that the majority of research has been done outside of South Africa.

Due to the many themes and related topics, one is faced with another limitation and that is the matter of diffusion. Due to the many manifestations of risk, the varying interpretations of these manifestations, one is often left with a feeling of déjà vu. Reading through literature one come across a

similar study, but the authors will not classify it as risk, they will use a new term to describe their specific interpretation of events.

Research also seemed to be very focused on cross sectional studies, whereas the nature of risk seems to be something that could be very dynamic. There is thus room in the literature for more longitudinal studies that will measure risk in the long run.

6.3.2 Limitations on the Research

The narrow data set is a limitation of this study. With more participants, one could have run more statistical tests and one could have made more conclusions on the data. Nevertheless, the dataset that was used did give some valuable insight.

The banking industry in South Africa is a highly regulated environment and to do research on its managers is a challenge. For this research study, the researcher had to apply themselves to the risk committee of one of the participating banks, before the participants were allowed to partake in the research. This highly regulatory environment could be beneficial to protect the bank, but it may also hinder it from possible opportunities of growth.

Having done the research as cross sectional, the data revealed itself as being much more dynamic than that. The “snap shot” that was taken of this research could also be considered a limitation, as it would have been preferable to do follow up analysis on the participants.

6.4 Conclusion

This study proposed four research propositions. The first one was that bank managers have a low risk profile. The results of this research found that the majority of the participating managers in this study had a high risk profile, as determined by the Risk Survey. This was contrary to what was speculated before the research was done.

The second proposition was that bank managers from different banks would have similar levels of risk aversion. The research did not give conclusive

evidence to support this proposition. There were trends and similarities, but there was no clear indication which could be substantially used.

The third proposition was that a manager with a high risk profile will not be placed in a position in the bank where they will influence the policies and procedures. The data gathered in this study that was presented made it evident that there was no clear correlation between a participant's risk profile and their decision making ability where decision-making is defined as the process where someone actively influence the course of action a business take.

The last proposition was that every manager in the bank will have a unique perception of a person as having a high risk profile - risk is defined subjectively. This last research proposition was not only supported by the data that was gathered, but also by literature. It can therefore be said that risk is a subjective concept.

CHAPTER 7

7. Conclusion

7.1 Introduction

In this concluding chapter, there will be briefly looked at the results of this research and some recommendations will be made to the business context of South Africa. Recommendations will also be made for further research.

7.2 Summary Of Results

This research had four propositions concerning risk aversion and managers in the banking context of South Africa. Though not all of the propositions could have been proven to be valid, it did lead to some interesting insights.

The first insight is that the managers who participated in this research, have a high risk profile. Literature supports the notion that having a manager who is not risk averse will most likely be beneficial to the organisation (Watkins & Rietsema, 2012). This is a counter intuitive realisation, because due to the current turbulent economic times, one would have speculated that managers would become more risk averse.

Risk aversion was evident in some of the scenarios that were presented to the participating managers. So that proves to an extent that the context can sometimes influence the subject's perception of risk (Davies, 2009).

What one person will see as a risk is different to another. One bank manager might look at a proposal and see it as a high risk and decline the opportunity for investment, while another bank manager might see the same proposal as an opportunity and decide to invest in it. For one person it is a risk, for another it is an opportunity.

The fact is that nothing is for certain, one cannot predict the future and constantly make good choices with beneficial results. One can place policies and other regulations in place to try and regulate one's environment to such an extent that one feels one is always making the better choice, but the problem is that it is impossible to go back in time and see if the alternative would have produced something better, or something worse.

In all of the data presented, the picture that was presented is that you cannot grow without taking risks. The act of moving forward involves taking a step into a direction. If you know where you are going, because you have been there before, it is just a sign that you are moving around in a circle. To break that cycle and grow, one needs to take that risk.

Regulation, policies and control is not wrong, but as Ludvig (2012) also states, it is essential that a company give considerable attention to its management of risk. By managing risk it is not implied that a company should avoid taking risks altogether, it should have room in its policies for managers to exercise their judgement if they feel there is an opportunity of growth for the company that may involve some risk.

7.3 Recommendations To Business

The recommendations that can be made for business are very contextual. It was reasonably clear from the scenarios that were given to the managers that banks are in a place where they are understandably risk averse. The scenarios were however descriptors of the average South African: earning less than R10,000 per month, earning wages, making some extra cash, with no education and with some work experience.

The recommendation for business is to find a way that will protect them to such an extent where they can serve this market segment without fear of losing their assets. The specific recommendation that can be made is by making use of the traditional lay-by system. With the lay-by method, the purchaser deposits their money for safe keeping until they have given

enough money to buy the item they are looking for. In this way the bank does not take any risk on themselves, but the customer has the convenience of having their money kept safe.

7.4 Recommendations For Future Research

As mentioned before, the recommendation for further research would be to do a longitudinal research study where the stability factor of risk can be measured. This research does need to be done on a sample of at least 50 or more managers over a period of time.

The other recommendation is to compare industries with each other, or perhaps compare departments within a company with each other. There is a possibility that some departments would be risk averse, while other departments might be risk seeking.

7.5 Conclusion

This research aimed to measure the risk aversion amongst bank managers within the banking industry of South Africa. It was found that the managers who participated in this research had high risk profiles and that risk is something that is defined subjectively. For business it is recommended that banks try to reframe their perception of risk, in order to penetrate new market segments. Further research that can be done could be a longitudinal study which measures risk across industries.

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Appendix 1

Risk Survey

Section A: Background Information

Please mark the appropriate box with an X.

1. Which bank do you work for?

Bank A	Bank B	Bank C	Bank D
--------	--------	--------	--------

2. Can you influence the policies and procedures the bank would use to qualify whether a project/person is being accepted as a potential financial investment?

Always	To some extent	Sometimes	In a limited way	Not at all
--------	----------------	-----------	------------------	------------

Section B: Attitude Towards Risk

Regarding your attitude toward taking risks:

3 Do you enjoy taking risks?

Always	To some extent	Sometimes	In a limited way	Not at all
--------	----------------	-----------	------------------	------------

4 Do you believe that the higher the risk, the higher is the reward?

Always	To some extent	Sometimes	In a limited way	Not at all
--------	----------------	-----------	------------------	------------

5 Do you believe that one can grow by taking risks?

Always	To some extent	Sometimes	In a limited way	Not at all
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6 Can you make a decision based on your gut-feeling, without gathering all the possible relevant facts?

Always	To some extent	Sometimes	In a limited way	Not at all
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Section C: Bank's Perception of Risk

Regarding the bank's perception (or classification) of high risk ventures, is the bank being:

7 Transparent

Always	To some extent	Sometimes	In a limited way	Not at all
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8 Consistent

Always	To some extent	Sometimes	In a limited way	Not at all
--------	----------------	-----------	------------------	------------

9 Accurate

Always	To some extent	Sometimes	In a limited way	Not at all
--------	----------------	-----------	------------------	------------

10 Fair

Always	To some extent	Sometimes	In a limited way	Not at all
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11 Rational

Always	To some extent	Sometimes	In a limited way	Not at all
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12 Within the South African context, would your employer (the bank) rate the following clients as high risk, or low risk (with regards to having the bank making a financial investment in the individual in the form of a home loan):

a. Someone earning less than R10,000 per month?

High risk	Low risk	No risk	<i>Uncertain</i>
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b. A worker who earns wages (not a fixed monthly salary)?

High risk	Low risk	No risk	<i>Uncertain</i>
-----------	----------	---------	------------------

c. An entrepreneur who makes their living earning cash (such as a street hawker or a taxi driver)?

High risk	Low risk	No risk	<i>Uncertain</i>
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d. Someone without a tertiary education?

High risk	Low risk	No risk	<i>Uncertain</i>
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e. A person with work experience, but without an education?

High risk	Low risk	No risk	<i>Uncertain</i>
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Thank you for your participation.

If you would like a copy of the results, please supply your email address in the space provided below:

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