MANAGERS' ATTITUDE TOWARDS RISK IN BUSINESS PRACTICE

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***Abstract**: The complexity and volatility of the business environment amplifies the action and consequences of all types of risk faced by companies, from the perspective of the diversity of the forms in which they appear and the magnitude of the effects they generate. Risk-taking is valued and treated as essential to the success of a business and is supported by the manager's attitude towards risk. The paper aims to provide an understanding of managers' attitude towards risk in business practice as part of the companies-wide risk management process, and highlights the correlation between managers' attitude towards risk and the business success.*

Keywords: *business, risk, manager, atitude, company-wide risk management*

***JEL classification**: M12, M21.*

1. Introduction

Risk is inevitable in business activities. The complexity and volatility of the business environment amplifies the action and consequences of all types of risk faced by companies, from the perspective of the diversity of the forms in which they appear and the magnitude of the effects they generate. Studies conducted by Centrefor Risk Management Studies (2017) found out risk forcompany reputation is the most threatening risk

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to company'ssustainability, followed by the HR planning failure (Valerian, Kountur & Moelyono, 2020). In present days, companies face some of the most complex risks that must be managed (Klein & Reilley, 2021), including environmental, social and governance (ESG) risks, cybersecurity risks (Eling et al., 2021), cloud computing risks and artificial intelligence risks (Crawford & Jabbour, 2023).

In essence, business risk is a managerial decision-making variable, determined by the probability of the occurrence of random or forecasted events that may produce within the company certain results with negative or positive deviations compared to the planned ones. The process of adopting and implementing decisions involves a high degree of uncertainty, managers being forced to assume the risks and identify the methods and instruments that counteract the negative effects of their producing.

Business success is only possible if the risks assumed can be controlled and do not exceed the financial means available to the company and its intervention possibilities. Therefore, managers try to find the most appropriate formula of behavior in relation to the risk factors, in the hope of a future profit, sufficient to cover the assumed risks. Risk-taking is valued and treated as essential to the success of a business and is supported by the manager's attitude towards risk. Attitude towards risk can be defined as a chosen state of mind concerning those uncertainties that could have a positive or negative effect on objectives. There have been many studies (Sprčić, Kožul& Pecina, 2017) proving theattitude can be influenced by behaviour. In general case, when people did not understandsomething, that person will act, conclude his/her attitude at the end, while looking at the situation whether it is favourable or unfavourable (Valerian, Kountur & Moelyono, 2020). Therefore, "human freedom to act" is very important in managerial judgment in decision-making (Butler et al., 2016) and risk-taking. Managers' attitude towards risk depends on certain elements considered as a reference: the level of profit, the company's position on the market, the goal and objectives pursued, the situational context existing at a given moment in the environment in which the company operates.

2. Literature review

Although it has been the subject of numerous approaches, the issue of risk in business management is far from being investigated in all its complexity. It still remains challenging, generating interest in the specialized literature. On a conceptual level, the notion of risk has been given different meanings. In the most widespread sense, most approaches refer to the risk of a business as the possibility of the occurrence of an event that can negatively influence the achievement of the proposed objectives. The approach is usually pessimistic, risk being related to negative phenomena. From this perspective, risk is seen as an "uncertain but possible element that constantly appears in the process of socio-human activities, whose effects are harmful and irreversible" (Ritchie, 1993). The Management Dictionary (2011) defines economic risk as a possible and unexpected event that would negatively affect the economic activity and the performance of a system or as the probability that an economic activity will not produce enough income to cover the costs that its development imposes. Risk exposure refers to the negative effects that the risk source could generate (the set of factors external or internal to the company that influence business risk) on the company's business. Sometimes, the factors that would lead to losses can be predicted in advance, other times the risk is unpredictable being determined by fortuitous situations. Seen from a pessimistic perspective, business risk includes the entire set of threats to a company. The severity of the risk can be assessed depending on the probability that it will occur and the degree to which it will affect the stability of the company in case it becomes a reality.

Some specialists consider business risk to be a too complex and variable phenomenon to be approached from a single perspective. They take into account both its negative side, appreciating it as a threat, and the positive side, as an opportunity (Ceocea, 2010). In this context, business risk must be seen as a complex of uncertainties, most of the time interdependent, each expressing the probability of the occurrence of events that can have a positive or negative influence on the company.

The current theories in the specialized literature have imposed a new perspective in the approach to business risk, with an emphasis on the possibility that risk can generate opportunities under the conditions of correct management, based on appropriate strategies (Dhlamini, 2022). It was suggested that through effective risk management, and by having an understanding of the risk appetite, we can determine how much risk we are willing to accept in relation to any choices or events we undertake (Anderson & Frigo, 2020). Risk appetite is the willingness of the organization's management to take risks to achieve a specific objective. The specialists claim that in business practice, managers' attitude towards risk depend on the person's background, professional orientation, and managerial perspective (Andersen &Sax, 2020). In specialized literature (Havârneanu, C.&Havârneanu, G., 2015) managers' attitude towards risk is divided into three categories (figure 1), as follows: aversion (of fear) towards risk, inclination (predisposition) towards risk, indifference (neutrality) towards risk.

Figure 1. The manager's attitude towards risk

In the situation of risk aversion attitude, managers associate the idea of risk with an undesirable situation, which ends with negative results, the tendency being rather to avoid the risk and not to accept it. The decision-maker will choose between a business with a certain profit and one with an uncertain profit, the latter only in the conditions where the mathematical probability of realizing the profit is higher than the certain profit. A manager with a risk-averse attitude will choose the option with the higher mathematical expectation of profit, even if the probability of its realization is lower than the option of a certain profit. The attitude of indifference (neutrality) towards risk means that the decision-maker is indifferent in choosing between the option that offers him the uncertain profit and the option with the mathematical hope of the profit equal to the certain one.

The delimitation of the managers' attitude towards risk in the three categories presented is not fully confirmed in the current reality of business. Specialized studies (Harris, 2014; Williamson, 2007) specify that the attitude in relation to risk factors is associated, most of the time, with certain particular traits of the manager's personality: fundamental values, aspirations, experience, professional training, etc. Depending on these influences, some managers will orient to business operations with favorable prospects, which provide them with an acceptable profit, under the conditions of assuming lower risks, and others will prefer higher gains, assuming appropriate risks (Dragomir, 2019). Based on existing theories, business performance can be effectively increased by cultivating a positive attitude towards risk. In essence, the correct attitude towards risk allows the development of the skills of its effective management, with an emphasis on the use of the most modern tools for the evaluation and control of different categories of risks.

3. Results and discussion

The influence of attitude towards risk in business practice was the subject of examination by many specialits that were concerned with the description of risk behavior by means of a utility function (Hershey & Schoemaker, 1980). The studies reported in literature are centered mainly on the use of utility theory as a means by which risky behaviour can be explained or prescribed. Utility reflects, in this context, the decision maker's option for the best alternative under risk conditions and is expressed by the degree of satisfaction the decision-maker obtains when opting for one or another of the decision options, in relation to his and the organization's objectives. The shape of the utility function differs depending on the managers' attitude towards risk (figure 2).

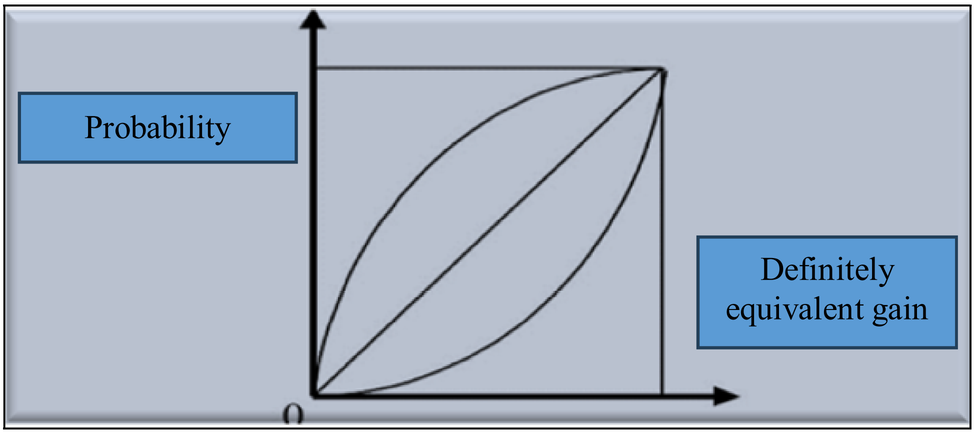

Figure 2. The manager's attitude towards risk expressed through the utility function (adapted from Coșea&Nastovici, 2008)

In case of risk-averse attitude, the shape of the utility function is concave (diminishing marginal utility), which means that the regret suffered for losing a certain amount of money (profit) is greater than the satisfaction of making a profit. In business practice, an entrepreneur with a risk-averse attitude, put in the situation of choosing between two actions with the same expected profit, will opt for the business that involves lower risks. He will be willing to take greater risks only if the expected rate of profit is high.

The shape of the utility function is convex (cresting marginal utility) when the manager has a risk-averse attitude, which can be translated into the fact that the regret for losing an amount of money is lower than the satisfaction of gaining an amount of the same value. The non-risk managers on the other hand are involved in work where profit or degree of profit is the attribute by which their effectiveness is measured and rarely will be concerned with decisions where only a loss or break even position is in prospect.

In case of neutrality) towards risk, the shape of the utility function is linear (constant marginal utility), which means that the regret for losing a certain amount of money is equal to the satisfaction for winning an amount of the same value.

Previous research shows risk aversion manifests itself more often in the managers of large companies, compared to those who lead smaller economic structures and with a more limited business scope. As a rule, the managers of small and medium-sized companies accept more easily the risk to expand the business to new market segments. They are more combative in initiating certain actions (launching new products or experimenting with new technologies, forcing market niches, etc.), they are open to market challenges and promote more aggressive business development strategies in order to be competitive.

The failure to manage business risk effectively is likely the major cause of most of the collapse of a business. The constant assessment of risks and their effective management can avoid decision errors and their adverse effects on the company's performance. The purpose of risk management is to discover, analyze and control all the causes and effects of risks manifested at the company level. Risk management is a cyclical process, which takes place throughout the duration of a project or an activity and involves going through several stages (figure 3).

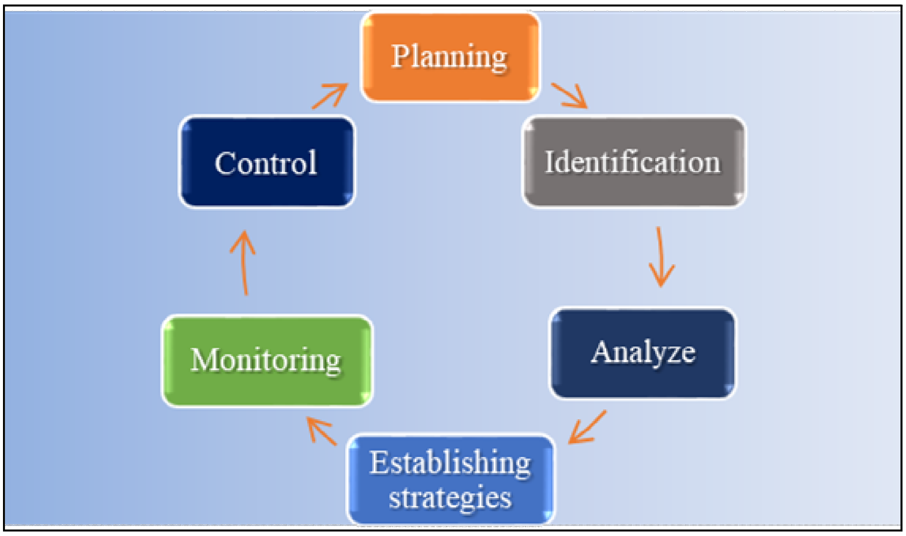

Figure 3. Risk management stages

Each company must develop the risk management models depending on the purpose pursued, the targeted objectives, the needs generated by the business development. Regardless of the designed model, it is necessary to constantly reassess the categories of risks that can affect the development of the business and, consequently, measures to update the methods and techniques of their evaluation and control. The management team must carefully follow the changes that may occur in the internal and external environment, as well as the changes caused by other factors that may affect the company's ability to respond in time and with minimal costs to the risks that have arisen. As companies are exposed to new risks, along with the accentuation of the old ones, the risk management strategy must be updated. There is a need for a permanent process of identifying new categories of risks that can affect the company's activity and reviewing the methods of risk management, in order to prevent or reduce them. In fact, it is a permanent process of improving risk management. As a rule, the results obtained are proportional to the risks taken, with high gains being associated with high risks. The greater the risks that a manager assumes, the more extensive will be his expectations regarding the expected gain.

5. Conclusion

Based on the results of this research and existing theories, business performance can be effectively increased by cultivating a positive attitude towards risk and an effective risk management program. Many managers take risk as a condition of success, believing that in business "the greatest risk is not to take risks". The ability to take risks, to face challenges and to learn from any defeat is part of the successful manager's personality. Moreover, the assumption of risk factors involves a special emotional content, due to the anxiety, fear, joy, but also the danger felt by the decision-maker Of course, risk requires courage, but offensive spirit is not enough to succeed. The courage means responsibility for the actions taken and exigency for the quality of the final goal. Therefore, managers must develop the ability to react correctly to risk exposure and to find effective formulas to adapt their strategic and operational behaviors to the specifics of the competitive environment.

In the current context of the business environment, marked by heightened competition, an effective risk management is not only limited to the minimization of risks and their effects on the company's activity, but also the optimization of the achievement of the company's objectives in terms of effectiveness and efficiency. In other words, the aim is to locate the company within an area between the limits where the risk is bearable and the cost is reasonable (cost lower than the limit imposed by the company's profitability). The constant assessment of risks and their effective management can avoid decision errors and their adverse effects on the company's performance. Business practice, through countless adverse effects of actions in which the risk was underestimated or of strategic risk management errors, demonstrates the fact that a faulty risk management can have disastrous consequences on the evolution of a business. Consequently, each company must develop the risk management models depending on the purpose pursued, the targeted objectives, the needs generated by the business development. Cultivating a positive attitude towards risk management and developing risk management skills will give the company the edge it needs to face the various challenges the future may bring.

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