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Managerial Risk Preferences for Below-Target Returns

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Abstract

This paper reports on the risk preferences for below target returns of 224 managers from the U.S. Canada, and Europe. When only non-ruinous losses were involved, 71% of the managers were risk seeking for below target returns. The distribution of risk preferences tended to be stable over a wide range of experimental conditions: diversity of background of the managers, the size of outcomes below target, and the context of the decision process (personal versus managerial). When ruinous losses were introduced for 75 of the managers, 64% switched to risk averse behavior. Empirical findings concerning the relationship between risk preferences for below target returns and several demographic characteristics of managers are also reported.

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