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Gender and Risk Appetite

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ABSTRACT: Risk appetite is the willingness of a person, a company, or an entity to incur risk for a return. It exceeds risk tolerance, meaning a particular entity wishes to take more risks than it can afford. However, risk appetite depends on various factors such as gender, etc., and two main questions that arise here are who has more risk appetite and if one of them has more, then what factors play a role in this. Next is more risk appetite, a good or bad thing. If possibly yes, then are there ways to increase risk appetite. In another case, if not, how can risk be reduced, or is elimination possible. This review covers terminologies like risk appetite, risk tolerance, and risk posture. Then, it puts light on gender and risk.

KEYWORDS: Risk appetite, Risk tolerance, Gender, Risk, Risk reduction, Risk elimination, Gender and risk

I. INTRODUCTION

Before we understand risk appetite based on gender, let's first walk through what is risk and risk in everyday life. Risk (Michael, Solenko, Yakhnich, & Karnieli-Miller, 2018) is everywhere even when we:

- **Eat and drink** - trying a new restaurant and what if the food is undercooked or not cooked using freshraw vegetables,
- **Travel** - encountering strangers,
- **Enjoy hobbies** - Inability to learn a play a new music tune,
- **Invest money** - Cryptocurrency is volatile, etc.

Risk-taking capabilities in gender (Hulse, Xie, & Galea, 2018) can result from where they were born, the environment in which they grew, how they were nurtured, what values were put in them, and most importantly, the support from parents and teachers and the social circle. For example, people went on solo trips or with friends or would have taken more risks as they would have managed on their own or gone on trips with their friends in school, college, and even after, respectively. That is because their participation in recreational activities would have been higher than children who would have gone on trips with their parents. This capability, to some extent, is developed in children (Jetter, & Walker, 2020) when they are five years old only. But that said, is taking risks necessary, or should we avoid it whenever we can.

We must understand which type of risk to take (Poletti-Hughes, & Briano-Turrent, 2019) neither every risk can be taken, nor can it be eliminated. For example, some recreational activities like bungee jumping give one protection with a rubber cord. Also, travelers traveling by plane are provided with a parachute which they can use if there is a risk. So this means if an entity is taking a risk, one should try to have a protection shield for safety even if there is a failure.

However, some children tend to take less risk over time again because of the environment and other factors like illnesses, disorders, or diseases. Also, parents must give their children a constant push to learn new activities, for example, swimming, etc.

Risk can be fruitful if one knows which risk is worth it, and it can even cause danger to one's life or bankrupt one, so a protection shield is suggested.

II. DEFINING RISKAPPETITE

Risk appetite (Bekaert, Engstrom, & Xu, 2021) refers to an entity's long-term strategy of what it aims to accomplish and the available resources to do so, expressed quantitatively. It represents that an entity is ready to accept to achieve its objectives is indicated by its risk appetite.

A payment processor may focus on retail, but it may wish to expand into the health care industry as part of its enterprise risk management strategy.

An entity has established its risk appetite (Pflueger, Siriwardane, & Sunderam, 2018) if it decides to accept the legal risks associated with the health care sector as part of its enterprise risk management strategy.

The key to successful risk management is determining the amount of risk an entity can take. Risk, especially enterprise risk management (Shad, Lai, Fatt, Klemenš, & Bokhari, 2019), offers insight to leadership and the whole entity, so they make important decisions related to business as per the executive-approved risk appetite statement.

A risk appetite statement (Kumar, & Kumar, 2020) is a written document that explains the risk decisions made by an entity and allows it to:

- Communicate its risk appetite to internal and external stakeholders,
- Better manage and understand its risk exposure, and
- Enable executives to make risk-based decisions as it guides the risk or compliance program.

The differing tolerances of an entity will develop naturally from the entity's ultimate risk appetite, but risk tolerances must align with the entity's aims. Aligning risk tolerance with an entity's complete risk appetite and strategic goals can help the entity achieve those objectives.

III. DEFINING RISK TOLERANCE

On the other hand, risk tolerance (Linnér, Biroli, Kong, Meddens, Wedow, Fontana, ... & Beauchamp, 2019) establishes the suitable minimum and maximum levels of variation for a business unit, company, individual initiative, entity, or particular risk category. The committee overseeing an entity's risk management strategy usually establishes a risk tolerance for minimum and maximum risk levels, then approved by leadership.

A high-risk tolerance (Rahman, Albaity, & Isa, 2019) indicates that an entity is willing to accept a high degree of risk. In contrast, low-risk tolerance suggests the unwillingness of an entity to accept many risks.

Many factors influence an entity's risk tolerance. For example, it might be willing to take several risks pertinent to a significant project, but this might not be the case for a minor project.

An entity operating outside its risk tolerance range puts its risk management strategy and goals at risk and might be jeopardizing the whole entity.

To assess risk tolerance, it must find out the outcome measures of its principal goals, for example, customer satisfaction, and decide the outcome range —below and beyond the desired goal—that it can understand for every goal.

For instance, an entity that has set the desired goal for its customer satisfaction rating at 92% might decide to tolerate a rating between 90% to 97%.

Risk tolerance is essential in a company's strategy for expanding its money without worrying daily.

If it cannot take the risk of losing its principal, even temporarily, it will have to compromise for lower-risk investments and the returns with them. Higher-returning investments are frequently associated with a higher risk of sudden downturns or extreme loss.

When thinking long-term, an entity that understands risk tolerance can devise an investment strategy that will help it balance the concerns of volatility with potentially higher returns.

IV. DEFINING RISK POSTURE

An entity's risk posture (Chen, Luo, Zheng, & Ke, 2019) is an amalgamation of risk appetite and risk tolerance. The risk posture of an entity is its entire vision of risk management. It is determined by:

- How embedded risk management is in its culture
- Daily operations
- Strategic decision-making
- Corporate governance
- Capital allocation
- Compensation practices

A substantial risk posture enables entities to take significant risks while adhering to strategic and operational objectives. Setting a solid risk posture necessitates senior executive focus and board support to achieve proactive management, precise risk reporting, and a comprehensive approach. In addition, an independent risk function must support it.

Furthermore, an independent risk function, risk management platform should be used to identify, analyze, and calculate risk. A careful risk-based approach is required to make a decision.

A systematic risk appetite framework assists entities in consciously deciding how much risk to take following the entirety of an activity or a strategy to achieve the desired objective. An integrated risk management framework with decided risk computation and accumulation technique, compliance to decided risk tolerance, and a flexible risk reporting remedy captures risk appetite or the adequate standard of the trade-off between risk and reward.

As a result, an entity with a high-risk profile will incorporate risk management into its strategic positioning and day-to-day operations, making informed risk-taking a part of its culture.

V. DOES GENDER DECIDE RISK-TAKING ABILITY?

The researcher conducted a study on whether women take as many risks as men taking age, industry, company size, and geography into consideration. But, unfortunately, the researcher had to mention out of 129 stories, only 47 of the stories contained 18% women, and 82 were about women. The researcher further revealed 15% and 38% of the female and male stories, respectively, for inclusion. Finally, the researcher mentioned the following learning (Rolison, & Shenton, 2020).

- **Men over women are more willing to take risks:** Many studies in which researchers point economic and evolutionary reasons over the years. One of the studies found that gender differences amplify more under stress. Male risk-taking tends to increase while female risk-taking decreases under pressure due to gender differences in brain activity involving computing risk and planning a course of action. The researcher claims that this study seems an important finding given the stressful work nature. The researcher questions whether men to be potentially too reckless and women are too cautious in such scenarios and the probable implications and further predicts one drift that under stress, both genders working together would make wiser risk-taking decisions than alone.
- **People sense women as comparatively more risk-averse than men:** Taller, stronger, and more attractive people are perceived as more risk-tolerant, according to some researchers. Women are perceived as more risk-averse (entity chooses to preserve capital over the possibility for an exponential return), meaning they are at a disadvantage of getting assistance for risk-taking. The researcher sensed that more male stories were more convincing than female stories. But then gave a second look and supported it with reasons like relating to the male stories easily, etc.
- **Genders' risk-taking role models are essential in a more complicated world:** When faced with a risky decision, leaders must consider various factors, including the likelihood of risk meeting strategic objectives and the impact on the involved people. The researcher's observation of men emphasizing the former and women emphasizing the latter is supported by research. This tendency supports the researcher's hypothesis that the most successful risk-taking involves these two genders' collaborative effort (and across other differences). However, according to the researcher, historically, framing risk-taking narrowly skews our perceptions. For example, most studies show that men have a higher propensity for risk-taking. Though these men define risk in physical and financial terms, and it is unclear whether these risks account wholly for in our business culture, will gender perspective be balanced.

VI. IS RISK APPETITE BASED ON GENDER?

Gender hardly has anything to do with risk appetite (Nadeem, Suleman, & Ahmed, 2019). Women as men can have equivalent appetite to take risks; however, they take different types of risks, states another research.

- **The number of risks taken and one's definition of risk:** For years, scientists have used Domain-Specific Risk-Taking Scale (a standard psychological test to assess risk-taking in financial decisions each for investing vs. gambling, and ethical, recreational, health/safety, and social decisions). It asks risk-takers to rate the likelihood of engaging in risky behaviors, like driving without a seat belt. If, rather than inquiring about driving, researchers asked risks women are more likely to take? When she added similar risks to the scale, such as preparing a tremendous but complicated dish for a dinner party or purchasing a ticket from a less trustable airline, women as men appeared to be equally comfortable.
- **Bias risk perception:** Tests used to make claims about gender and risk until now are biased. The results depend on behaviors included, and humans think stereotypically that male behaviors are riskier than stereotypically female ones, even when it is invalid. For example, cheerleading is objectively a risky sport considering the severe injuries caused, but we rarely think of it that way.

The author reveals that in one study, people rated male risk-taking behaviors riskier than women risk-taking behaviors, even when they were matched for how risky they were. So this makes biasness clear - when thinking of risk, we consider only men and their behaviors and overlook feminine risk-taking.

VII. YOUNG MEN, RELATIONSHIPS, AND RISK-TAKING BEHAVIOR

Because of raging hormones and circumstances, adolescents (Willoughby, Heffer, Good, & Magnacca, 2021) are more reckless than older adults and take more risks than children.

Young men, for example, may drive more carelessly when accompanied by their peers, particularly same-gender peers or an attractive female, than when alone (Why Do Young Men Engage in Risky Behaviors?, 2022).

Young men in stable romantic relationships, on the other hand, are more cautious than their unattached peers.

Prudent young men have more chances of attracting long-term girlfriends. However, studies show that their girlfriends have a soothing influence on them.

One study engaged young men in a standard risk proneness assessment known as the Stoplight Game - a type of driving simulator run on a desktop computer.

Participants in this study had to navigate through several intersections to reach their destination on time. However, as the participants approach each intersection, the traffic lights turn yellow (Morgenroth, Fine, Ryan, & Genat, 2018).

They will get to their desired location and earn more points if they run the yellow light, but they risk colliding with other traffic and costs them time and points. Contrarily, if not, then not they don't risk a collision but again costing time and points.

Participants played the Stoplight Game in one of three conditions:

- **Condition 1:** While his girlfriend sat next to him and watched, the young man played the game.
- **Condition 2:** The young man and his girlfriend were put in separate rooms and played the game alone.
- **Condition 3:** The male with an attractive female watched while his girlfriend was off in a separate room. She was a confederate, meaning she was working for the experimenter, but the participant didn't know that.

When the Stoplight Game began, the male saw the young female enter the lab and inform the researcher that they were expected to partake in the study.

She explained that they had just broken up. She wondered if she could still get credit for the experiment. The experimenter relented and allowed her to sit next to the male while he completed the task.

The first two conditions were set up to see if the presence of their girlfriend has a calming effect on young men, and the results showed that young men were more careful when their girlfriends sat next to them than in the next room.

So having a girlfriend by their side helped calm them down, but this is not true with attractive women because they prioritize commitment and dependability with their girlfriend.

Possibilities when young men sat next to attractive women and played:

- They were reminded of their girlfriend by the latter, prompting them to drive more cautiously.
- The former would presumably act bold and daring to impress the latter.

We can only presume young men behaving irresponsibly in front of attractive strangers. Adolescent and youth romantic relationships are fluid, and commitment to each other may be temporary. Because of the available alternatives, they will end a "committed" relationship to pursue a new partner who is more desirable and is the same for both genders.

VIII. CONCLUSION

Women are the free spirits of the species and can take equal risks as men, either in the same or different departments depending on one's exposure and experience. However, men are still considered more risk-takers which is false and only a people's perception. A factor can be because men have always been assumed to be stronger physically and mentally from historical times. Only people's mindsets and creating more opportunities for women can give a fair judgment. Instead, the lesson is to be wary of fallacious reasoning. When people begin to challenge their existing biases, they will be able to see the world more clearly. And when they do, they'll probably notice that women take far more risks than they previously thought.

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