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Factors that Shape a Hotel Company's Risk Appetite

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Abstract

Despite a growing scholarly interest in risk management within the field of hospitality, risk appetite, which plays a key role in effective risk management, has not yet received wider attention. This paper contributes to our understanding of risk appetite by exploring the factors that influence risk appetite in a hotel company context. Through in-depth interviewing with risk appetite experts and corporate-level hotel executives, we identified two sets of factors ('primary' and 'secondary') that influence a hotel compan's risk appetite. Although, at corporate level, these factors do not differ from other industry contexts, they can be used by managers in the hotel sector as a starting point to understand drivers and inhibitors of their companies' risk appetite while researchers can use them as a basis to develop descriptive or predictive models of a hotel company's risk appetite.

Keywords: determinants; factors; hotel company; risk; risk appetite; risk management

1. Introduction

The vulnerability of hospitality organisations to a wide range of risks has sparked a growing scholarly interest in corporate-level risk management, with particular focus on systematic and non-systematic risk (Chen, 2013; Kim et al, 2012; Vivel-Búa et al, 2018), risk perception (Waikar et al., 2016) and mitigation strategies (Gjerald and Lyngstad, 2015). This vulnerability has increased as the industry continually witnesses risk-taking activities by major hotel groups, mostly in the area of mergers and acquisitions (Falk, 2016) but also in the adoption of new technology in product and service innovations (Hu et al., 2009; Lee et al., 2016). While risk taking is important in achieving a company's goals, it is even more crucial to ensure that appropriate types of risk are taken and at the appropriate levels (Bromiley et al., 2015). Taking inappropriate types of risk or taking too much risk could put a company on the verge of collapse, whereas taking too little risk could mean the company is not capitalising on available resources to maximise returns (Lam, 2014). In order to determine an optimal level of risk taking, decision makers and risk managers must understand their company's risk appetite which is defined as the types and amount of risk a company is willing to take in order to achieve its objectives (Alix et al., 2015; Lamanda and Voneki, 2015).

Risk appetite has been recognised as a key consideration in a company's risk management and strategic decision-making process (Gontarek, 2016). It has become a central concept in the business world as publicly-listed companies (including hotel companies) are increasingly asked by corporate governance regulators to produce a formal 'statement' elucidating their risk appetite (Baldan et al., 2016). While every company has an inherent appetite for taking risk, recognising it and evaluating its appropriateness in a conscious manner has been a major challenge for decision makers (Bromiley et al., 2015). We argue that one way to tackle this challenge is to identify and comprehend the factors that determine risk appetite. An in-depth understanding of such factors will not only help companies better articulate their risk appetite statement but will also facilitate more effective risk monitoring and review as well as allow the identification of risk appetite 'levers' (i.e. factors over which a company has direct control), which can be used by senior management to proactively modify the company's risk appetite.

Despite its prevalence among practitioners, risk appetite has received very little research attention in academia and yet no studies have been undertaken to explore the factors that influence it. Existing studies on risk appetite are largely conceptual and exist mostly in the field of finance and economics (Etula, 2013; Hassani, 2015), where the focus has been on debating the meaning of the concept (Aven, 2013), highlighting its role in risk management (Gontarek, 2016) and presenting different approaches to developing a risk appetite statement (Baldan et al., 2016; Berlinger and Varadi, 2015). In the field of hospitality, although there is a growing risk management literature with particular emphasis on risk perception (Le and Arcodia, 2018; Wen and Kwon, 2017) and risk treatment strategies (Gjerald and Lyngstad, 2015; Waikar et al., 2016), the concept of risk appetite has not yet been explored at any depth. Given the important role that risk appetite plays in bridging risk perception and risk treatment (Hillson and Murray-Webster, 2012), as well as in serving as a reference point for risk prioritisation and resource allocation (Lam, 2014), this exploratory study makes a distinctive contribution to the literature on risk management by identifying and exploring the factors that determine the risk appetite in a hotel company context.

The paper begins by defining the concept of risk appetite and to do so it integrates different strands of literature related with risk taking in order to develop a conceptual framework of factors that may determine a company's risk appetite. The framework is refined and enriched by the findings of interviews, first with ten international consultants considered as 'risk appetite experts' and then with sixteen corporate executives from two major hotel groups. The paper ends with a series of conclusions as well as recommendations for practitioners and directions for further research.

2. Literature Review

2.1 The concept of risk appetite

Since the 2008 global financial crisis, the business world has seen an exponential growth in the use of the term 'risk appetite' (Gontarek, 2016). Companies in various industries are now asked by corporate governance regulators to clearly articulate their risk appetite in their corporate reporting (Bromiley et al., 2015). It is believed that the more thorough discussion among board members about how much risk they are ready to take, can help companies make more conscious and informed choices in risk taking (Aven, 2013) and can effectively restrain any extreme risk-taking behaviours, so prevalent among large companies prior to the 2008 financial crisis (Hillson and Murray-Webster, 2012).

Nevertheless, academic research on risk appetite remains limited. Existing studies on risk appetite were mostly conducted in finance and economics (Muralidhar and Berlik, 2017), where scholars often equate risk appetite with conventional terms such as 'risk aversion', 'risk tolerance' or 'risk preference' and define it as an investor's willingness to buy risky assets (Dupuy, 2009; Gai and Vause, 2006). These scholars also tend to view risk appetite as an individual-level, rather than organisational-level concept, primarily associated with taking investment risk (Belghitar and Clark, 2012; Kaufmann et al., 2013). In business management, there is a growing number of studies on risk appetite (Aven, 2013; Bromiley et al., 2015; Gontarek, 2016), yet there is no agreement on its definition. For example, while Gontarek (2016, p. 123) defines risk appetite as '*the written articulation of the aggregate level and types of risk that a firm will accept or avoid, in order to achieve its business objectives'*, Aven (2013, p. 465) describes the concept differently as '*the willingness to take on risky activities in pursuit of values'*.

Despite the lack of a universally accepted definition (Lam, 2014), a common understanding of the concept appears to be the company's *desire* for risk taking to achieve its objectives (Bromiley et al., 2015). However, this desire cannot be simply described with generic terms such as 'risk-averse' or 'risk-seeking' (Aven, 2013). Depending on the types of risk under consideration and the specific circumstances, this desire for risk-taking can be multidimensional and dynamic (Hillson and Murray-Webster, 2012). For example, a hotel company may have 'zero appetite' for guest safety risks such as food poisoning, yet it may be willing to take a significant financial risk by approving a major acquisition. The same company, at a different time, may have a small risk appetite for acquisitions due to a lack of financial capital or management capability. In this sense, many of the existing risk appetite definitions, such as Gontarek's (2016) and Aven's (2013), have failed to capture this multi-dimensional and time-horizon features that characterise risk appetite and have led many corporate executives to the misconception that a company's risk appetite is static and can somehow be expressed by a single metric. For this reason, the current study approached risk appetite as a company's *dynamic* desire for risk taking to achieve its objectives *at a particular point in time*. A different point in time will see different circumstances to the company and so will the types and amount of risk the company will desire to take.

2.2 Risk appetite determinants

Scholars from various fields, primarily from finance/economics and psychology, have developed several prominent theories to explain the risk-taking behaviour of individuals and companies. For example, theories such as the Expected Utility Theory (Schoemaker, 1982), Prospect Theory (Kahneman and Tversky, 1979) and Mood Maintenance Theory (Isen and Patrick, 1983) indicate that wealth, risk perception, and emotion are key factors that drive individual risk taking. Other theories such as the Behavioural Theory of the Firm (Cyert and March, 1963), the Threat-rigidity Thesis (Staw et al., 1981), the Agency Theory (Eisenhardt, 1989), the Behavioural

Agency Model (Wiseman and Gomez-Mejia, 1998) and the Upper Echelons Theory (Hambrick and Mason, 1984) maintain that company performance, executive remuneration and the risk propensity of the CEO, the Board and the Executive Committee are key determinants of a company's risk taking.

These factors have been supported by subsequent studies seeking to test those theories. For example, company performance has been found to have a significant effect on firm risk taking depending on whether the performance meets the desired target (Chen and Millier, 2007; Gomez-Mejia et al., 2007; Shimizu, 2007). Executive remuneration, particularly in the form of cash bonuses and stock options, has been noted as an important driver of firm risk taking (Eisenmann, 2002; Wright et al., 2007). Moreover, the risk-taking propensity of individual senior managers in company Boards (Belghitar and Clark, 2012; McNulty et al., 2013; Sahaym et al., 2016) and their emotions (Delgado-Garcia et al., 2010; Fessler et al., 2004) have also been identified as drivers of a company's risk-taking behaviour as a reflection of its leaders' characteristics and preferences. Kull et al. (2014) and Panzano and Roth (2006) showed that the nature and level of a risk can either drive or inhibit a company to take it.

Other factors that may influence a company's risk appetite have been found to be the company's strategic objectives (Bhatta, 2003; Rittenberg and Martens, 2012), the company's size (Bhagat et al., 2015; Mattana et al., 2015) and its competition (Jimenez et al., 2013; Tabak et al., 2012) as drivers of risk-taking behaviour whereas government or industry regulation (Cohen et al., 2013; Hoque et al., 2015) as an inhibitor for risk-taking. The company's risk-taking history (track record) (Bouwman and Malmendier, 2015; Kaufmann et al., 2013) and its stakeholders' pressure (Chatzinikoli and Toner, 2009; Govindarajan, 2011) have been identified as both drivers and inhibitors, depending on the circumstances at a specific point of time.

While these studies have identified a wide range of factors, they do not relate to each other and consequently, our understanding of the determinants of risk taking is not complete and is confined to only how a single factor influences risk taking. There are, however, some studies that take a comprehensive view to investigate the effect of multiple factors on risk taking. For example, Baird and Thomas (1985), Bhatta (2003) and Pablo and Javidan (2002) synthesised existing literature and proposed conceptual models of factors that influence company risk taking. While their models displayed a wide range of similar factors, they went further and grouped the factors into distinct categories, relating mostly to elements and attributes of the company, individual and team characteristics of the decision makers and external forces within the industry and wider business environment. In another study, taking a grounded-theory approach, Harwood et al. (2009) identified ten determinants of a company's risk taking, although the labelling of those determinants was quite different from the rest of the literature. Table 1 synthesises the relevant literature and presents the determinants of a company"s risk appetite classified as internal and external.

Determinants	Potential relationship with risk appetite	Sources
Internal		
Performance	Well-performing companies take less risk; Under-performing companies take increased risk but tend to be risk-averse when low performance threatens their survival.	Chen and Miller, 2007; Gomez-Mejia et al., 2007; Shimizu, 2007
Objectives	Risk-taking driver; the ambitiousness ness of objectives is positively associated with risk appetite.	Baird and Thomas, 1985; Bhatta, 2003; Rittenberg and Martens, 2012
Firm size	Risk-taking driver	Baird and Thomas, 1985; Bhagat et al., 2015; Mattana et al., 2015
History of risk taking	Past success in risk taking increases risk appetite; past failure in risk taking decreases risk appetite.	Bouwman and Malmendier, 2015; Carpenter et al., 2003; Kaufmann et al., 2013
Risk perception	Positively (negatively) perceived risk decreases (increases) risk appetite. Level of perceived risk negatively influences risk appetite.	Baird and Thomas, 1985; Kull et al., 2014; Panzano and Roth, 2006
Board risk propensity	Risk-taking driver	Belghitar and Clark, 2012; Bhatta, 2003; Pablo and Javidan, 2002
Executive Committee risk propensity	Risk-taking driver	Bhatta, 2003; Pablo and Javidan, 2002
CEO risk propensity	Risk-taking driver	McNulty et al., 2013; Sahaym et al., 2016
CEO emotions	Risk-taking driver	Delgado-Garcia et al., 2010; Fessler et al., 2004
Executive remuneration	Risk-taking driver	Baird and Thomas, 1985; Eisenmann, 2002; Wright et al., 2007
External		
Stakeholder demands	Depending on which stakeholder and the nature of the demand, the risk appetite may increase or decrease.	Chatzinikoli and Toner, 2009; Govindarajan, 2011
Competition	Risk-taking driver.	Baird and Thomas, 1985; Jimenez et al., 2013; Martinez-Miera and Repullo, 2010; Tabak et al., 2012
Regulation	Risk-taking inhibitor	Cohen et al., 2013; Hoque et al., 2015

Table 1. Factors that may determine risk appetite

To develop the conceptual framework of risk appetite determinants that would inform our fieldwork, we further segregated the 'internal' determinants into 'organisational' and 'decision-maker' and re-labelled the 'external' to 'environmental' determinants as presented in Fig. 1. This categorisation is consistent with other studies (Pablo and Javidan, 2002; Hillson and Murray-Webster, 2012) and highlights the role that individual decision makers can play in a company"s risk behaviour.

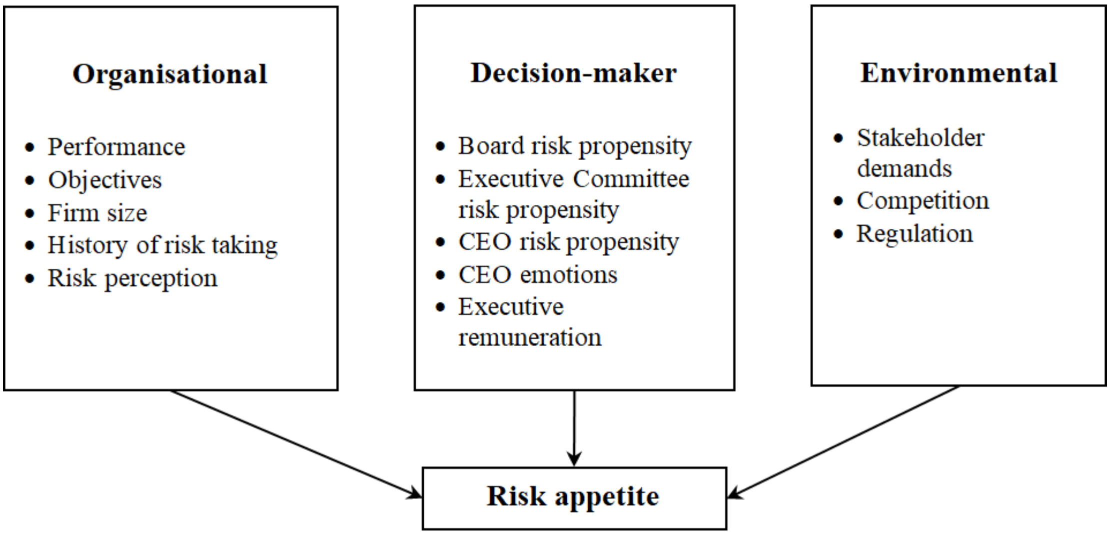

Fig. 1 Conceptual framework of determinants of risk appetite

3. Research Design

3.1 Stage One

This stage involved key informant interviews (Altinay et al. 2016) with risk consultants known for their expertise on risk appetite and their active involvement in projects, conferences and debates on this concept. Key informants normally need to occupy critical roles in their field and have a mastery of the specialised knowledge relevant to the study (Adema and Roehl, 2010). Seventeen key informants based in the UK, the US and Australia, were identified using a specific set of inclusion criteria: the person must have publications on risk appetite; be regarded globally as a leading risk appetite consultant; and, be a frequent speaker in risk appetite-related conferences, seminars and workshops. Ten of them (seven in UK – later coded as

UK1, UK2, …, UK7 and three in the US – US1, US2 and US3) accepted the invitation and were interviewed. In-depth, unstructured interviews were used for data collection with one initial question: ‘In your view, what are the factors that determine a company’s risk appetite?’ The subsequent interventions depended largely on the informant’s answer. A range of probes and other techniques were used to achieve depth of answer in terms of penetration, exploration and explanation (Legard et al., 2003).

The interviews lasted between 45 to 88 minutes, were digitally recorded, transcribed verbatim and member-checked (Lincoln and Guba, 1985), with all amendments considered as primary data. The transcripts were imported to NVIVO10 for analysis, drawing upon the approach of Miles and Huberman (1994). The coding included a combination of deductive and inductive processes: the deductive process started with agreeing a general coding framework based on factors depicted in the conceptual framework. We created a ‘node’ for each factor and labelled them using the exact same ‘name’ (such as ‘objectives’, ‘performance’ and ‘Board risk propensity’). We then read through all transcripts to highlight key words, sentences and paragraphs related to those factors and placed them into the corresponding nodes. Following this activity of deductive coding, all transcripts were coded again inductively to allow for the identification of new nodes emerging from the data. We focused on sentences and paragraphs that could not be labelled using existing nodes, for which we created new ‘nodes’ and labelled them in the same term as they were mentioned by informants (such as ‘risk culture’, ‘risk capacity’ and ‘leverage’). We then compared and compiled all deductively and inductively extracted nodes and grouped them hierarchically under the main categories of the conceptual framework: ‘organisational’, ‘decision-maker’ and ‘environmental’ factors (see Appendix 1 for a screenshot of the ‘node tree’). This coding process was agreed between all researchers and each researcher independently coded the transcripts. The NVIVO nodes that emerged from these independent analyses were compared with an inter-coder reliability rate of 72.6%, which is more than acceptable (Olson et al., 2016). We recorded the number of times each factor was mentioned through all transcripts as well as the number of consultants that mentioned the factor (presented in Table 2). Each researcher then read and re-read the coded excerpts within each node to generate an understanding of the informants’ accounts in relation to each factor.

3.2 Stage Two

Having established a set of factors that determine a company's risk appetite, the second stage of the study sought to explore those factors in the context of hospitality using two international hotel groups. The two hotel groups (hereafter 'company A' and 'company B') are among the world's largest, each running several thousands of hotels under a diverse portfolio of brands. Despite their commonalities in scale, business model and customer segments, the two hotel groups had displayed very different risk appetites between 2009 and 2015. More specifically, in areas such as 'geographic markets', 'speed and diversity of brand development' and 'approach to risk management', company A appeared consistently risk-averse and behaved conservatively, whereas company B appeared more 'hungry' for risk and behaved more aggressively.

Sixteen corporate-level executives out of the twenty approached (eight from each company, coded later as A1, A2, …, etc. and B1, B2, …, etc.) participated at this stage. The sample size was deemed sufficient because the population with in-depth knowledge and experience to discuss risk appetite is mostly limited to Board of Directors and Executive Committee. These informants were selected using purposive sampling among the two hotel groups' executives tasked to articulate their company's risk appetite. Their job titles included Senior Vice President (SVP) Global Risk Management, Vice President (VP) Global Internal Audit, SVP Procurement, VP Corporate Safety and Security, VP Corporate Communications, Public Relations and Reputation Management, VP Legal and VP Corporate Tax.

Prior to the interview, a short questionnaire that listed potential determinants of risk appetite was handed to the informants, who were asked: a) to indicate whether each factor influenced the risk appetite of their company (Yes/No); b) to rate the level of importance of a factor to risk appetite on a 5-point Likert scale (1 = very low and 5 = very high); and, c) to indicate the nature of the influence (i.e. increase risk appetite or decrease risk appetite). The purpose of the questionnaire was to identify key issues to be clarified in the 'follow-up' semi-structured interview. The interview questions focused on their views on factors that determine their company's risk appetite. They were also asked if they felt that some determinants were missing from the questionnaire. The interviews lasted on average 50 minutes each.

The analysis of the questionnaire focused on identifying the most important factors affecting risk appetite and any ‘unexpected’ answers that deviated from or disconfirmed the literature. All questionnaire responses were transferred onto a summary for comparisons. To evaluate the importance of a factor to risk appetite, the average rating per factor was calculated. Factors with an average rating of more than ‘3’ were considered as ‘more important’, and those that were equal or less than ‘3’ were considered ‘less important’. To determine the nature of the influence, the answer that represented the majority of the responses in the company was treated as the ‘common’ view. Factors on which informants unanimously agree were labelled as ‘undisputed’, and those where there was no clear consensus in the company were noted as ‘disputed’. This allowed the classification of all factors into four categories: ‘more important/disputed’, ‘more important/undisputed’, ‘less important/disputed’ and ‘less important/undisputed’. This categorisation informed the analysis of the interview data, which was based on common codes, including ‘importance to risk appetite’ and ‘nature of influence’ for each factor.

4. Findings and Discussion

4.1 Stage One findings

The first stage of the study aimed to validate the conceptual framework by identifying factors that determine a company’s risk appetite from a generic business perspective (risk consultants with expertise on risk appetite). As can be seen from Table 2, all factors in the conceptual framework were confirmed, with objectives, history of risk taking and performance being identified by all ten consultants. On the other hand, decision-maker related factors such as CEO emotions and Board risk propensity have only been mentioned by four informants. This is slightly surprising as these two factors were commonly recognised in the literature as key risk-taking drivers of a company (Belghitar and Clark, 2012; Delgado-Garcia et al., 2010). However, this may be offset by the broader agreement on Executive Committee risk propensity (confirmed by seven informants), as informants commented that it is the Executive Committee’s task, rather than the Board of Directors or the CEO alone, to articulate a company’s risk appetite.

Factors	Number of mentions	Number of consultants mentioned
Objectives	35	10
History of risk taking	24	10
Performance	22	10
Risk capacity	20	10
Competition	24	9
Risk culture	21	9
Risk management capability	14	9
Stakeholder demands	22	8
Executive committee risk propensity	19	7
Executive remuneration	12	7
Regulation	12	6
CEO risk propensity	9	6
Firm size	7	4
CEO emotions	6	4
Board risk propensity	5	4
Leverage	2	2
Risk perception	2	2

Table 2. Risk Consultants' views on factors that determine risk appetite

Another key finding in stage one was the emergence of four new determinants: risk capacity, risk culture, risk management capability and leverage.

Risk capacity was a determinant factor mentioned by all ten informants and, as explained by US3, it refers to '*the absolute maximum amount of risk a company is able to take in financial/monetary means*'. It serves as a '*legitimate upper limit'* which risk appetite must not exceed, as otherwise the company would be taking more risks than it could afford, hence exposing itself to bankruptcy. Regarding how risk capacity influences risk appetite, the analysis revealed two views. Four informants maintained that change in risk capacity does not influence risk appetite, because risk capacity only serves as a benchmark to assess whether risk appetite has been set at appropriate levels. However, the other six informants argued that if risk appetite is always lower and not equal to risk capacity, this may be interpreted by investors as board's inability to optimise company resources risking the label of '*overly conservative board*' (UK2, US1). Most informants suggested a positive correlation between risk capacity and risk appetite.

Risk culture was identified by nine informants as a key determinant of risk appetite, and broadly understood as a company's shared values and beliefs about risk and its role in organisational decision making. Several informants argued that each company's risk culture depends on its unique organisational 'make-up'. UK4 referred specifically to '*vision and mission, history, structure and employees*' whereas US2 said that it is the risk culture that '*determines the particular types of risk a company favours to take on and the amount it is comfortable with'*. Nevertheless, none of the informants was absolutely clear about how risk culture affects risk appetite (*'it depends'* on the circumstances being the most common answer without much more explanation), making this question more intriguing for the second stage of the study.

Risk management capability was also identified as a determinant factor by nine informants. Most of them elaborated that risk management capability is a broad and multi-dimensional construct, which encompasses '*the awareness of risk at all organisational levels*' (UK4, UK5) and '*the risk management skills and know-hows'* (UK7). Whilst eight informants noted that risk management capability determines the specific types of risk a company is willing to take, because it highlights '*the core competences of a company and the specific risks it has the specialty to manage*' (UK5), informants US1 and UK6 cautioned that a clear understanding of a company's risk capability '*could*, *but not necessarily would'*, lead to taking a particular type of risk because the company may not have sufficient risk capacity to support the desired activity. Equally, a company with a large risk capacity may have a poor capability in identifying and controlling risks, and as a result may not be able to take any risk. This finding suggests that risk capacity and risk management capability are two factors that work in tandem in driving risk appetite.

Leverage was a determinant factor identified by only two informants (US3, UK5) and explained as '*the amount of debt used to fund a company's operation*' (US3). Whilst an increasing amount of debt strengthens the company's financial capital, our study informants argued that a highly leveraged company tends to be very prudent in risk taking, because any unnecessary risk-taking decisions, if turn out to be unsuccessful, could significantly undermine the company's ability to repay its debt. On the other hand, a company with a low level of debt does not have such a concern and thus might be more comfortable to exploit emerging opportunities and taking increased risk.

4.2 Stage Two findings

Having established a set of factors that determine a company's risk appetite in the first stage of the study, the second stage further explored those factors in the context of hotel companies. Table 3, Table 4 and Table 5 present the responses from both companies to each of the three research questions: a) whether each factor influenced the risk appetite of their company (Yes/No); b) the level of importance of a factor to risk appetite on a 5-point Likert scale (1 = very low and 5 = very high); and, c) the nature of the influence (i.e. increase or decrease risk appetite).

4.2.1 Confirmation/disconfirmation of factors that influence risk appetite

As can be seen from Table 3, all hotel executives agreed that objectives, CEO risk propensity, Executive Committee risk propensity and Board risk propensity influence their company's risk appetite. There is also a broad consensus that factors like risk culture, executive remuneration, history of risk taking, competition, risk capacity, risk management capability, performance, stakeholder demands and risk perception influence risk appetite.

Factors	**Company A**		**Company B**		**Total (A+B)**	
	Yes	**No**	**Yes**	**No**	**Yes**	**No**
Objectives	8	0	8	0	16	0
CEO risk propensity	8	0	8	0	16	0
Executive Committee risk propensity	8	0	8	0	16	0
Board risk propensity	8	0	8	0	16	0
Risk culture	8	0	7	1	15	1
Executive remuneration	8	0	7	1	15	1
History of risk taking	7	1	8	0	15	1
Competition	8	0	6	2	14	2
Risk capacity	8	0	6	2	14	2
Risk management capability	8	0	6	2	14	2
Performance	7	1	7	1	14	2
Stakeholder demands	7	1	6	2	13	3
Risk perception	6	2	6	2	12	4
Regulation	6	2	4	4	10	6
CEO emotions	2	6	7	1	9	7
Firm size	4	4	4	4	8	8
Leverage	5	3	1	7	6	10

Table 3. Hotel executives' views on factors influencing risk appetite

There are no major differences between the executives from company A (more risk-averse) and company B (more risk-seeking). It is interesting to note that quite a number of informants from both companies did not see leverage, firm size, CEO emotions and regulation as key determinants of risk appetite in their companies.

Leverage was a factor that only two consultants supported in Stage One and, in Stage Two, more hotel executives dismiss it than support it as a factor that influence risk appetite. While five executives from company A acknowledged the factor, seven of their counterparts in company B denied its effect on risk appetite. According to informant B7, the main reason seems to be related to the fact that company B has a very low level of debt, which does not create 'any extra burden' on the company in terms of fulfilling repayment obligations. However, B5 made a rather interesting point by saying that even if a company has a high level of leverage, the nature of the company, i.e. being a limited liability entity, would exempt decision makers from being held liable for any financial loss, therefore the risk appetite '*should not be affected by leverage at all'*. He also added that for other losses resulting from *'reckless risk-taking'* there is the Directors and Officers liability insurance (also known as 'D&O') which is payable to the company's senior management, as indemnification (reimbursement) for losses from a legal action brought for wrongful acts in their capacity as directors and officers. The legal status of the company may indirectly be related with its size where opinions were equally divided among hotel executives.

Regarding CEO emotions, i.e. the CEO"s personality and mood, the two companies had quite opposing views: while in company B executives believe CEO emotions influences risk appetite, most executives in company A believe it does not. According to company A executives, the low influence of CEO emotions on risk appetite is due to the fact that their CEO '*understands well enough that decisions cannot be made emotionally*' (A4) but *'rationally and collectively'* (A1, A3). Also, company A has *'a comprehensive decision-making mechanism'* with '*multiple levels of checks and approvals*' (A6) that is designed to minimise emotional influence on key decisions. In contrast, four informants from company B commented that the company's current and previous CEOs were all highly emotional individuals, whose '*mood, temper, and attitude have had a major influence on the strategies we take*' (B2). It is evident that, although the corporate governance structures in the two companies are the same (dictated by the stock markets where they are both listed), their organisational culture differs and, as a consequence, the CEO's personality on decision making has a different impact - a finding consistent with other studies on risk taking (Belghitar and Clark, 2012; Delgado-Garcia et al., 2010)

4.2.2 Importance of factors to risk appetite

Table 4 presents the average ratings of the hotel executives of how important each of the framework factors is in the shaping of their company"s risk appetite. Based on these ratings, all factors were grouped into 'primary' and 'secondary' categories. 'Primary' factors include factors that are common to both companies and which are highly likely to exhibit a significant influence on risk appetite. We argue that these primary factors are essential considerations for understanding a hotel company's risk appetite. In contrast, ' secondary' factors contain those which are 'more important' to one company but are 'less important' to the other. We argue that they complement the primary factors in understanding the determinants of risk appetite. Such an importance-based categorisation offers a more structured approach for prioritisation and analysis of factors that determine risk appetite as well as addresses a limitation in the extant literature, where different factors were assumed to be equally important in determining risk appetite.

Factors	**Average rating (Importance)**		**Total average**
	Company A	**Company B**	
Primary			
Objectives	4.125	4.5	4.3125
CEO risk propensity	4	4.125	4.0625
Risk capacity	3.875	4	3.9375
Risk culture	3.875	3.571	3.723
Stakeholder demands	3.428	4	3.714
Executive Committee risk propensity	3.75	3.625	3.6875
Executive remuneration	3.5	3.833	3.6665
Firm size	3.5	3.667	3.5835
Performance	3.286	3.714	3.5
Regulation	3.5	3.5	3.5
History of risk taking	3.143	3.75	3.4465
Secondary			
Leverage	4	3	3.5
Risk management capability	2.875	3.833	3.354
Board risk propensity	3.5	3	3.25
Competition	3	3.5	3.25
CEO emotions	3	3.167	3.0835
Risk perception	1.667	3.167	2.417

Table 4. Hotel executives' views on the importance of identified factors

As shown in Table 4, on average, all factors were rated with more than '3' expect risk perception which received the lowest total average rating of 2.417. This means that all factors (apart from risk perception) identified from the literature and from the first stage of this study are valid in a hospitality context. The top five primary factors are objectives, CEO risk propensity, risk capacity, risk culture and stakeholder demands. The top three secondary factors are leverage, risk management capability and Board risk propensity.

It is worth noting that Board risk propensity was rated considerably lower than that of the CEO risk propensity and Executive Committee risk propensity. In company B, Board risk propensity was even considered as a 'less important' factor. This is quite interesting as the literature (McNulty et al., 2013; Sahaym et al., 2016) suggests that the Board should define and articulate their company's risk appetite. However, this was not the case in both companies as the task was delegated to the CEO with the support from the Executive Committee. This was explained by A1 who said that the CEO and Executive Committee are '*much closer to the company than the Board* [of independent directors]*, hence they have better knowledge about the company and are better positioned to make more informed decisions than the Board'*. This finding demonstrates that it is the top management team (i.e. CEO and Executive Committee) rather than the Board that plays a central role in driving a company's risk decision making (Sahaym et al., 2016). Given the observation that companies which are predominantly led by their senior management team are prone to take higher risks than they should (McNulty et al., 2013), it is critical for hotel companies to understand the consequences of this 'shift' in risk decision-making, and for Boards to ensure a careful consideration of the risk propensity of their CEO and other Executive Committee members when appointing them. Boards must also exercise stronger oversight to ensure that the risk propensity of their CEO and the Executive Committee is at an appropriate level which is less likely to drive unnecessary risk taking.

4.2.3 Nature of influence on risk appetite

The last question in Stage Two explored the nature of influence that the determinant factors have on risk appetite. In the outset of the study, it was assumed that the influence of the framework factors on risk appetite would either be positive (stronger factor - higher risk appetite) or negative (stronger factor – lower risk appetite). However, the executives' responses showed that, for certain factors, the influence on risk appetite may be both positive and negative under different circumstances. The letter 'M' was used to indicate such a 'mixed' influence.

The findings presented in Table 5 showed that while regulation was undisputedly noted as having a negative influence on risk appetite, objectives, CEO risk propensity, Executive Committee risk propensity, executive remuneration, competition and CEO emotions were unanimously acknowledged to drive risk appetite.

Factors	**Number of executive mention (Company A)**			**Number of executive mention (Company B)**			**Total**		
	+	**M**	-	+	**M**	-	+	**M**	-
Primary									
Objectives	8	0	0	8	0	0	16	0	0
CEO risk propensity	8	0	0	8	0	0	16	0	0
Executive Committee risk propensity	8	0	0	8	0	0	16	0	0
Executive remuneration	8	0	0	7	0	0	15	0	0
Risk culture	7	0	1	5	0	2	12	0	3
Risk capacity	6	0	2	5	0	1	11	0	3
Regulation	0	0	6	0	0	4	0	0	10
Stakeholder demands	6	1	0	3	2	1	9	3	1
Performance	4	1	2	5	2	0	9	3	2
History of risk taking	2	4	1	5	2	0	7	6	1
Firm size	2	0	2	3	0	0	5	0	2
Secondary									
Board risk propensity	8	0	0	6	0	2	14	0	2
Competition	8	0	0	6	0	0	14	0	0
Risk management capability	7	1	0	6	0	0	13	1	0
CEO emotions	2	0	0	7	0	0	9	0	0
Risk perception	2	0	4	2	0	4	4	0	8
Leverage	0	0	5	1	0	1	1	0	6

Note: +/M/- represents positive/mixed/negative influence on risk appetite

Table 5. Hotel executives' views on the nature of influence of identified factors

Regarding executive remuneration, many executives noted that if it is designed in a short-sighted, target-oriented way that rewards short-term performance, it could induce careless and excessive risk-taking behaviour from the company. This is because executives are likely to become overly focused on achieving performance targets and as such may overlook other crucial aspects of hotel company growth, such as '*the credibility of the owner, the specific location and the market prospects*' (B3). Eventually, hotel development projects could be problematic and even fail to convert into actual hotel openings. More importantly, two executives (A4, A8) commented that a short-sighted remuneration mechanism may '*foster an inappropriate company culture that aligns risk-taking decisions to short-term targets*' (A8), rather than the company's long-term strategy and sustainability. Therefore, hotel companies should carefully design their executive remuneration, perhaps in a way that rewards '*quality strategic growth'* (A1), i.e. growth in the company's strategic markets where the relationship between hotel company and hotel owner (franchisee) remains strong.

Apart from the factors mentioned above, the nature of influence on risk appetite for the remaining factors was pretty much debated, with many executives suggesting a positive influence on risk appetite while others a negative one. Notable factors in this category include risk culture, risk capacity and Board risk propensity. For example, twelve informants (seven from company A and five from company B) posited that strong risk culture leads to an increased risk appetite explaining that *'a strong risk culture ensures that the company's risks are sufficiently recognised and managed'* (B7). On the other hand, three executives (one from company A and one from company B) commented that such a risk culture also indicates *'a high level of risk awareness across the company',* which may render senior management *'overly sensitive to potential risks'* (A6) and thus become less effective in analysing the relevance of risk information. The amount of information may then overwhelm senior management, decrease their efficiency for making decisions and thus *'possibly miss rewarding opportunities'* (B8). Hotel companies, therefore, need to understand that while there is value to foster a strong risk culture, it is important to ensure that this culture does not impede *'a balanced approach between risks and rewards'* (B8).

Factors that have mixed influence on risk appetite, depending on particular environmental and organisational circumstances, were found to be company's history of risk taking, performance and stakeholder demands. For example, a company's history (track record) in risk taking was found particularly controversial. An executive (B6) characterised it as *'a vital source of reference to make future risk decisions'* and many executives (two from company A and five from company B) as a factor with positive influence on risk appetite. Whilst a strong track record in risk taking strengthens risk appetite due to enhanced senior management confidence, a weaker track record would more likely reduce risk appetite as it could indicate that the company is not as effective in understanding and managing risks. However, almost as many executives felt that a strong prior track of successful risk-taking would have different impact on risk appetite from a strong track of unsuccessful risk-taking. This view appears reasonable, even if the relevant literature (Carpenter et al., 2003), posits that prior failures are valuable knowledge that subsequently improves the company's willingness to take future risk as it understands risk better and can therefore manage it more effectively.

In addition, whilst the influence of performance on risk appetite was widely noted across executives from both companies, the nature of that influence seems to be dependent upon the company's *'state of performance'* (B1), i.e. well-performing or under-performing. A company that is meeting its targets or on course to meet the targets is considered as well-performing, whereas one is struggling or fails to meet the targets is considered as under-performing. Although there is consensus that under-performing companies tend to take an increased level of risk to *'generate more rewards to compensate for the poor performance'* (*A5*), disparity exists with regard to well-performing companies. Despite the view of five executives (three from company A and two from company B) that well-performing companies tend to become more conservative in risk taking since they wants to *'maintain its momentum'* (A7) and not wish to take unnecessary chances that might *'jeopardise its good performance'* (A1), twelve executives (five from company and seven from company B) commented that well-performing companies would *'almost always be required to stretch further and take on extra risks'* (B3). While informant A7 explained that this further stretch is due to the preference from the Board and the investors towards a steadily improved performance over a sustained performance, A2 commented that such a decision is a perfect example of *'human greed'*, which fundamentally drives firm risk-seeking behaviour.

Moreover, executives from both companies confirmed that their companies actively seek and consider stakeholder demands, particularly from shareholders and hotel owners, in their strategic decision making process. According to two informants (A4, B3), this is due to the *'company-wide adoption of the asset-light approach to growth'*, where securing funding from investors and maintaining relationships with existing hotel owners is *'of paramount importance for the company to grow its market share and compete with other rivals'* (B3). While many executives noted that investors typically push a company to engage in more risk-seeking activities for an increased return on investment, informants A5 and B6 argued that such a demand can also provoke risk-averse behaviour, where the company is likely to *'halt its risk-seeking projects and adopt a conservative approach to reducing operational costs'* in order to drive return. It was also noted that different types of stakeholders may demand the company to behave differently towards risk. While hotel owners and guests normally ask a company to take more risks to innovate its products and services, others stakeholders such as governments and regulators tend to *'use laws and regulations to confine a company's risk appetite'* (A7).

Finally, it is interesting to note that Stage Two did not reveal any sector-specific factors influencing the risk appetite of hotel companies. All factors confirmed by hotel executives in this study as influencing their company's risk appetite can be applied to companies in other sectors such as tourism, financial services or manufacturing. A possible explanation for this could be that all informants were corporate executives of major hotel groups and companies like these behave just like any other company in the corporate world.

5. Conclusion

The purpose of this study was to identify and explore the factors that determine risk appetite in a hotel company context. Bringing together definitions from several strands of risk literature, risk appetite was defined as '*a company's dynamic desire for risk-taking to achieve its strategic objectives at a particular point in time'*. Following a literature review, seventeen factors that influence risk appetite were identified and classified as organisational, decision-maker and environmental but also in terms of their level of perceived influence on risk appetite as primary and secondary. Some of these of factors (e.g., objectives, CEO risk propensity and executive remuneration) increase a hotel-company"s risk appetite while others (e.g., regulation) decrease its risk appetite. An interesting finding was that for some factors (such as history and track record of risk taking and performance), the nature of influence on a company's risk appetite may change under different circumstances. Overall, the study showed that these seventeen factors could be applied to all types of companies as no one factor has hospitality-specific characteristics.

These findings can be used by decision makers and risk managers to better understand and analyse the drivers and inhibitors of their company's risk appetite. The factors may also be used to decode and analyse competitors" risk appetites and gain better insights of competitors' risk-taking behaviour. Researchers can use these factors as a basis for modelling risk appetite and examine the inter-relationships and explore their mediating or moderating roles. Finally, given that the factors identified in this study did not have any hospitality-specific characteristics since the sample was drawn from large corporates, it would be interesting to conduct a study with owners and managers of smaller hotel companies or individual hotels in order to reveal perhaps more hospitality-specific factors influencing their risk appetite.

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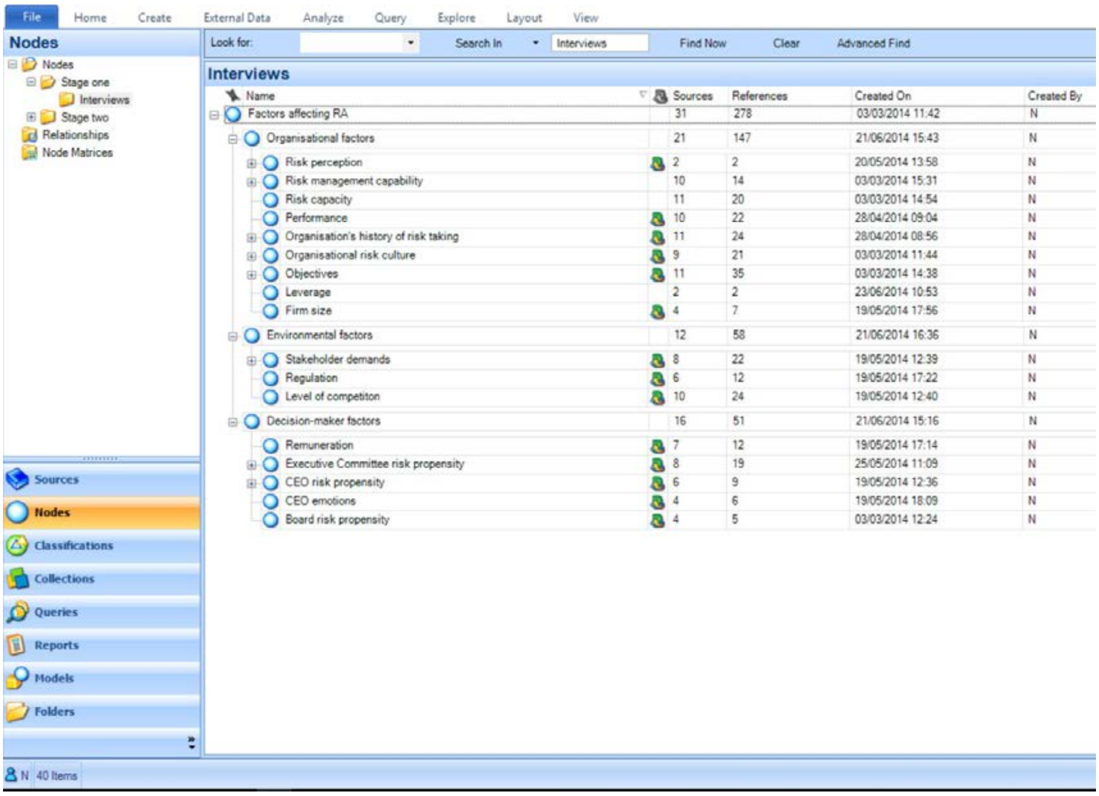
Appendix 1. NVIVO node tree



Name	Sources	References	Created On	Created By
Factors affecting RA	31	278	03/03/2014 11:42	N
Organisational factors	21	147	21/06/2014 15:43	N
Risk perception	2	2	20/05/2014 13:58	N
Risk management capability	10	14	03/03/2014 15:31	N
Risk capacity	11	20	03/03/2014 14:54	N
Performance	10	22	28/04/2014 09:04	N
Organisation's history of risk taking	11	24	28/04/2014 08:56	N
Organisational risk culture	9	21	03/03/2014 11:44	N
Objectives	11	35	03/03/2014 14:38	N
Leverage	2	2	23/06/2014 10:53	N
Firm size	4	7	19/05/2014 17:56	N
Environmental factors	12	58	21/06/2014 16:36	N
Stakeholder demands	8	22	19/05/2014 12:39	N
Regulation	6	12	19/05/2014 17:22	N
Level of competiton	10	24	19/05/2014 12:40	N
Decision-maker factors	16	51	21/06/2014 15:16	N
Remuneration	7	12	19/05/2014 17:14	N
Executive Committee risk propensity	8	19	25/05/2014 11:09	N
CEO risk propensity	6	9	19/05/2014 12:36	N
CEO emotions	4	6	19/05/2014 18:09	N
Board risk propensity	4	5	03/03/2014 12:24	N