

## EDITORIAL PREFACE

# Neo-Reasoning Risk Behavior Analysis from Novel Socio- Cultural Economic Perspectives

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## INTRODUCTION

Recently I had the pleasure of hearing Dan Kahneman lecture from a unique interdisciplinary viewpoint integrating psychology, economics, statistical probability and complexity theory. Dr Kahneman was one of the 2002 Nobel Prize recipients in economics ([http://www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/2002/](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/)). He inspired my thinking by demonstrating complex decision making concepts, using simple probability concepts, analyzed through psychological sense-making.

I reflected that contemporary researchers could be myopic in framing risk and contingency ‘perspectives’, quantifying irrelevant uncertainty, missing socio-cultural factors, using the wrong techniques, or ignoring relevant outliers. Instead of testing hypotheses against normal distribution assumptions—or imposing any constraints—we could take a different perspective: Find and analyze the factors which are not statistically significant. Since uncertainty is

essentially the unknown, maybe that is where we will find clues to identify subliminal indicators of tacit palindromes. For example, if we were 95% confident of factors that predict terrorist acts, could we learn more about the complex underpinnings of deviant human behavior by examining uncertainty in data which were not significant in the model? Like any new idea this has its shortcomings, mainly in our ability to reason over empirical evidence.

The current issue begins to adopt this line of neo-reasoning. Our contributors present insightful analysis of the seemingly obvious but with innovative perspective-taking. Socio-cultural uncertainty underpins all studies in this issue to some degree. This may simply be an *a priori* model applied to a sample with different socio-cultural economic governance as compared to where the theories originated (which are usually in USA). Another subtle theme running through this issue is the exploration of social-psychology uncertainty within and between humans, at the group or organizational level of analysis.

## **LITERATURE REVIEW**

### **How Perceptions of Uncertainty and Regret Impact Decision Making**

Green (2014) must have been reading my mind when she submitted this insightful literature review and critical analysis of a significant risk-behavior model. It was an obvious choice for the lead article in this issue. She revisited Kahneman and Tversky's work on Prospect Theory from an interdisciplinary economics and socio-psychology basis, by explaining how human perceptions of risk and regret affect decision-making. She focused on small business entrepreneurs – at the individual level of analysis. I counted 100 references, which she reviewed and discussed into four categories: stakeholder risk-taking perspectives, aspirations with reference points, organizational innovation-change, and applied lessons-learned. Her taxonomy and references are applicable for all types of risk-related and economics studies.

### **Effective Supply Chain Risk Management in the Clothing Industry**

Moon, Mo and Chan (2014) applied the grounded theory approach using interviews for data collection, to identify effective supply chain management (SCM) practices of international clothing industry manufacturers. They investigated how textile and apparel producers managed risks in order to survive—and grow—in the unstable economic post-financial-crises era. They purposively selected six successful enterprises based in Hong Kong. They found the companies in their sample employed broad and integrative enterprise-wide approaches to identify, avoid and mitigate risks. An interesting strategy they applied was to assess the risk analysis capability of each firm using an Enterprise Risk Management (ERM) maturity continuum they developed. Although this was a qualitative data study, they discussed how control factors impacted ERM, namely, company size, scope of operations, and legal structure/governance.

Their ERM taxonomy would be valuable as a construct for future SCM research.

### **Risk Management Practices in Chinese Small Businesses**

Gao and Zhang (2014) applied the case study method with the interviewing technique to examine the investment practices of 14 managers at several small businesses located in China. They found Chinese small business owners generally have a poor understanding of financial uncertainty and they pay less attention to managing risks. The qualitative causes for this lack of risk management stemmed from a lack tools and insufficient knowledge about risk management methods. Interestingly, small business managers perceived financial risks differently from managers in the larger organizations. Chinese small business managers preferred to transfer risk through contracts or insurance instead of applying modern techniques such as to hedge their portfolios. Interestingly, Chinese small business owners relied on guanxi social relationships, rather than basing their decisions on financial analysis. This study is certainly of value to Chinese small businesses and the findings may motivate researchers to try neo-reasoning perspectives.

### **Reducing Organizational Risk through Policy and Governance**

Ueng, Ramaswamy, Yeh and Chang (2014) took a positivistic ideology, by retrospectively examining 3,068 companies, to determine how governance impacted investment risk ratings. They varied from regression practices of testing the impact of organizational factors on profits. Instead they measured how governance such as compensation policy, takeover defense strategy, and accounting practices impacted investment dealer risk ratings of the firm. They found that strong governance improved ratings. The valuable aspect of their study was to think outside the box in terms by reengineering the customary urge in financial risk research to test for a casual relationship of firm characteristics on profitability.

## **Risk Tolerance in Multinational vs. Domestic Indian Pharmaceuticals**

Chakraborty (2014) also took a positivistic ideology, exploring basic accounting ratios in novel ways with 20 pharmaceutical companies in India. His application of statistical techniques was basic yet rigorous. He found more domestic companies were profitable when the debt was used for financial leverage (e.g., to expand). Multinational companies who used earnings to cover loan interest for expansion were more profitable. Overall, the ten multinational companies in his sample performed better as compared to the ten domestic pharmaceuticals, with respect to financial leverage-profitability. It would be interesting to replicate this study in other industries and countries.

## **FUTURE RESEARCH**

*IJRCM* Associate Editor (and Editorial Review Board of Director) Niro Udumalagala offered her insights and recommendations for future journal issues based on her community of practice experience.

New research opportunities exist—and are needed—across the contributing disciplines of *IJRCM*. In the business category, which is interdisciplinary, we need more research into how complex decisions are made when there is a high level of uncertainty. In economics, practitioners should explore quantitative and behavioristic

models applied to risk analysis (this includes criminology, sociology, finance, insurance, and other sub disciplines). In healthcare we need more examples of uncertainty and contingency management for both clinical (medical) research as well as studies of the impacts of genetic or molecular engineering in proteomics and other subfields. In management information technology more explorations of uncertainty quantification as well as risk management are needed in metabolomics (healthcare engineering technology) and traditional cyber security issues.

Engineering and environmental sciences are also in need of more research on pollution and global warming risks. In sociology and criminology, terrorism remains a large risk which is begging for better models. Psychology serves all the above disciplines we are seeing interesting studies emerge exploring human behavior in uncertainty and crises.

In political science we need more investigations of the implications of risk models on society. Professionalism and ethics are also relevant topics for enhancing our understanding of risk and contingency management. All of these disciplinary domains need to be further explored across cultures and geographic regions. We enthusiastically await your research!

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*Kenneth David Strang has a Doctorate in Project Management (business research), an MBA (honors), a BS (honors), as well as a Business Technology diploma (honors). He is a certified Project Management Professional® from Project Management Institute, and is a Fellow of the Life Management Institute (distinction, specialized in actuarial statistics and pension systems), from the Life Office Management Association. His research interests include: leadership, multicultural e-learning, marketing new product development, knowledge management, and risk/e-business project management. He teaches subjects in business, in class as well as online, plus he supervises doctorate students. He has authored numerous manuscripts and books since 1981. Finally, he is an Editor and Associate Editor at several journals.*