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Mediation of Risk Perception Between Leadership Styles and Risk Management Styles of Managers

Abstract

The study examined the mediation of risk perception between leadership styles and risk management styles of managers during managerial decision making. Leadership styles were measured through Multifactor Leadership Questionnaire (MLQ), risk perception in decision making was measured with Decision Situations Scale (DSS), risk management styles of managers were measured with ACAT Risk Management Styles Scale (ARMSS) was administered on 300 managers. Risk perception partially mediated between leadership styles and risk management styles of managers. The study integrated scientific knowledge from different models of organizational life. The findings are useful in high-risk organizational environments in the current decade.

Key Words: Risk Perception, Leadership Styles, Risk Management Styles, Managers

Introduction

Current decades have changed the life in organizations. Thus, the modern business environment is more uncertain and riskier in nature. Managers are required to make fast decisions in high-risk situations. Managers' ability of risk management is influenced by numerous factors (Cook & Hunsaker, 2001). More specifically, the leadership styles of managers influence the selection of risk management styles of managers (Riaz & Khalily, 2014). Besides the managers' leadership styles, the risk perception in a certain decision also influences the managers' choices of risk management styles. In short, managers' risk management style in decision making is an outcome of the interaction between managers' leadership and the level of risk perception in a decision situation.

Globalization changed the life of modern organizations and altered the entire organizational procedures and practices. Leaders make decisions in organizations and therefore

considered responsible for their success and failure. Current day organizational decisions are fairly different from the traditional organizational decision-making practices. In the current decade, leaders are required to make decisions in the conditions of risk instead of certainty (Griffin, 2011). Thus, leaders' ability of risk management in decision making has gained importance in the modern decision literature because whatever the situation is, decision making is the responsibility of the leaders. Historically, leadership has progressed in four ages, including the pre-classical era, classical era, modern era and post-modern era (Divine, 2008). Modern leadership work has entered the post-modern era of leadership in which the latest advancements are known as *new leadership approaches*. Full Range Leadership Theory (FRLT), comprised of three leadership styles—transformational, transactional and laissez-faire—is an important theory that is

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included in the new leadership approaches ([Bass & Avolio, 2003](#); [Bass & Reggio, 2006](#)).

The major stance behind the present study is that when leaders perceive risk in decision making, they adopt distinct risk management styles—risk acceptance, control, avoidance and transfer—for making decisions under risk. Nowadays, leaders hardly find an opportunity for making decisions in complete certainty in which the antecedents and consequences of the decisions are known (Cook & Hunsaker, 2001). Contrary, the altering face of the modern business sector requires managers to take risks for making better organizational decisions ([Griffin, 2011](#)). Hence, the risk management styles of managers show their exceptional skills of managing risks in decision making. It is distinctive research carried out for examining the risk management styles of the leaders of Full Range Leadership Theory (FRLT; [Bass & Reggio, 2006](#)), including transformational, transactional and laissez-faire leadership. This theory is considered a satisfactory example to fit in the modern business world, which is ever-changing.

Thus, these leaders' styles are put on the test to examine their selection of risk management strategy in the conditions of risk during the course of decision making in modern organizations. In this study, all the hypotheses are verified by the empirical data.

Prior researchers investigated the decision making of these leaders in different situations. However, the present study is based on a unique stance as it investigated the risk management styles of leaders of FRLT during the course of decision making under situations of risk. More specifically, the study intended to examine the moderating role of risk in the relationship between leadership styles and risk management styles in banks. Risk is managed by leaders in organizations by using four types of styles, including risk acceptance, control, avoidance and transfer. Thus, other than the direct effect of leadership styles on risk management styles were investigated, the interaction effect of risk perception in decision making and leadership styles was also inquired.

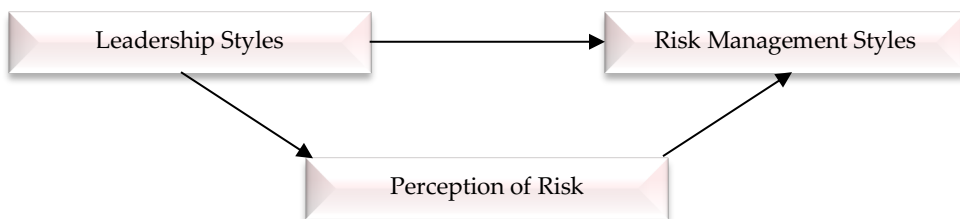


Figure 1: Conceptual Framework on Perception of Risk as Mediator Between Leadership Styles and Risk Management Styles among Managers

Hypotheses

1. Perception of risk is likely to mediate between transformational leadership styles and risk retaining, sharing and mitigating.
2. Perception of risk is likely to mediate between transactional leadership style and risk-mitigating.
3. Perception of risk is likely to mediate between laissez-faire leadership style and risk transfer and avoidance.

Method

Participants of the present study comprised bank managers ($N = 300$) from different banks. The purposive sampling technique was used as a major strategy to collect the data from a targeted sample. Only full-time bank managers were included in the sample with at least a full-time supervisory experience of six months. The MLQ by [Bass and Avolio \(1989\)](#) with 36 items, DSS by [Riaz \(2015\)](#) with 27 items and ARMSS by [Yasmin](#)

(2018) with 20 items were administered for data collection. First of all, permission obtained from the concerned authorities and informed consent was taken from the participants. Before data collection, participants were informed regarding the purpose and importance of the study and necessary instructions were given about the questionnaires and questionnaires were administered. The researcher effectively handled all the queries of the participants before, during and after the questionnaire completion. In the

end, the researcher thanked the participants for their valuable cooperation.

Results

The current investigation examined the mediation of perception of risk between leadership styles and risk management styles. For this purpose, hierarchical regression is computed. Alpha coefficients are $\alpha > .70$ and therefore reliable, and skewness-kurtosis are < 2 and therefore showing normality.

Table 1. Psychometric Properties and Pearson Correlation for Variables

Variables	1	2	3	4	5	6	7	8
1. Transformational	-	.43*	.51*	.40*	.34*	.48*	.58*	.46*
2. Transactional		-	.40*	.47*	.72*	.84*	.54*	.45*
3. Laissez-faire			-	.54*	.39*	.41*	.46*	.67*
4. Risk				-	.70*	.67*	.82*	.79*
5. Risk avoidance					-	.79*	.71*	.55*
6. Risk control						-	.65*	.55*
7. Risk acceptance							-	.67*
8. Risk transfer								-
N	300	300	300	300	300	300	300	300
Mean	9.24	1062	11.64	13.24	11.15	11.56	11.68	13.29
SD	3.53	3.63	3.61	4.35	5.10	3.77	4.33	3.72
Alpha coefficients	.80	.79	.77	.73	.76	.80	.81	.82
Potential range	5-25	5-25	5-25	5-25	5-25	5-25	5-25	5-25
Actual range	5-22	5-23	5-24	5-25	5-23	5-22	5-25	5-25
Skewness	.84	.47	.48	.23	.79	.24	.30	.09
Kurtosis	.46	-.18	.23	-.65	-.24	-.64	-.65	-.28

* $p < .001$

Table 2. Mediation of Risk Perception between Leadership and Risk Management Styles

Predictors	Model 1 B	B	95%CI LL, UL	Sobel test	Outcome Risk control
(constant)	16.22***	8.58***	[5.22, 11.95]	.33***	
Transformational leadership	.15**	.12**	[.17, .02]		
Risk		.29***	[.17, .32]		
R ²	.04	.21			
F	8.19**	26.72***			
ΔR^2		.17			
ΔF		43.49***			
(constant)	15.59***	9.13***	[5.58, 12.68]	.65***	Risk acceptance
Transformational leadership	.12**	.09*	[.17, .02]		
Risk		.25***	[.17, .32]		
R ²	.06	.30			
F	12.27***	42.01***			

Predictors	Model 1 B	B	95%CI LL, UL	Sobel test	Outcome Risk control
ΔR^2		.24			
ΔF		67.63***			
(constant)	14.32***	8.07***	[4.59, 11.54]	.32***	Risk control
Transactional leadership	.09*	.07	[.15, .02]		
Risk		.24***	[.17, .31]		
R^2	.03	.20			
F	5.85*	24.70***			
ΔR^2		.17			
ΔF		42.33***			
(constant)	7.63***	.82	[2.25, 3.90]	.98***	Risk avoidance
Laissez-faire leadership	.37**	.18	[.02, .39]		
Risk		.43***	[.36, .51]		
R^2	.04	.41			
F	7.93**	69.32***			
ΔR^2		.37			
ΔF		125.72***			
(constant)	6.08***	1.47*	[1.44, 4.37]	.05***	Risk transfer
Laissez-faire leadership	.32***	.19	[.02, .39]		
Risk		.29***	[.22, .36]		
R^2	.04	.28			
F	8.32**	37.99***			
ΔR^2		.24			
ΔF		65.08***			

The table explains that risk perception mediated between transformational leadership and risk control with an additional effect of 17%. The regression weights reduced from Model 1 to Model 2 (.15 to .12) but remained significant, which provides evidence of partial mediation. The table explains that risk perception mediated between transformational leadership and risk acceptance with an additional effect of 24%. The regression weights reduced from Model 1 to Model 2 (.12 to .09) but remained significant, which provides evidence of partial mediation. The table explains that risk perception mediated between transactional leadership and risk control with an additional effect of 17%. The regression weights reduced from Model 1 to Model 2 (.09 to .07) and became non-significant, which provides evidence of perfect mediation. The table explains that risk perception mediated between laissez-faire leadership and risk avoidance with an additional effect of 37%. The regression weights reduced from Model 1 to Model 2 (.37 to .18) and became non-significant, which provides evidence of perfect mediation. The table explains that risk perception mediated between laissez-faire

leadership and risk transfer with an additional effect of 24%. The regression weights reduced from Model 1 to Model 2 (.32 to .19) and became non-significant, which provides evidence of perfect mediation.

Discussion

The study examined the mediation of risk perception between leadership styles and risk management styles. The first hypothesis, “risk perception is likely to mediate between transformational leadership and risk acceptance”, is empirically supported in this research. Important organizational decisions are made under the conditions of low, moderate and even high risks situations characterized as uncertainty (Griffin, 2011). Thus, taking calculated risks or blind risks in decisions determine their effectiveness. Concluding, all-important organizational decisions taken by managers involve some sort of risks (Greenberg & Baron, 1993). It is worth mentioning here that when transformational leaders face risks while making decisions, they are willing to accept those (Bedeian & Hunt, 2005). Therefore, in the

uncertain modern business environments, transformational leader's willingness to take risks in decision making makes them superior and exemplary ([Bass & Riggio, 2006](#)).

The second hypothesis anticipating that "risk perception is likely to mediate between transformational leadership and risk control" was empirically supported in this study. Transformational leader's risk management potentials are not limited to risk acceptance. Instead, these leaders practice their superior traits to control risks. As mentioned earlier, all risks are not limited or calculated; rather, some are blind in nature and consequences like crisis, emergencies and turbulence ([Natale, O'Donnell, & Osborne, 1990](#)). Spontaneous decisions in such situations are considered inappropriate due to the fair probability of missing some important information ([Spicer & Sadler-Smith, 2005](#)). Cook and Hunsaker (2001) illustrate that during the evaluation of the alternatives, the probability of success and the associated risk of negative outcomes must be taken into consideration. More specifically, "in a given situation, the first task for a leader is to determine the nature of the situation" (Northouse, 2007, p. 95). Therefore, instead of blindly accepting the blind risks, transformational leaders use their talents to control the upcoming risks by incorporating rationality in decision making ([Riaz, 2009](#); [Tambe & Krishnan, 2000](#)). Such leaders share risks with followers ([Avolio & Bass, 2002](#)). Transformational leaders take calculated risks when anarchy provides opportunities for change (Bedeian & Hunt, 2005) instead of taking risk blindly.

The second important leadership style in FRLT is transactional leadership. Theoretical illustrations and empirical support not placed transactional leadership as high as transformational, but still it is a positive, reasonable and constructive style of leadership in the modern corporate sector ([Avolio, 1999](#); [Bass & Avolio, 2003](#)). The third hypothesis, "perception of risk is likely to mediate between transactional leadership and risk control," was supported by the data. Contrary to

transformational leaders who are regarded as change agents ([Bedeian & Hunt, 2005](#)), transactional leaders are more stability-oriented ([Daft & Lane, 2002](#)). Transactional leaders engage in planning, organizing and making decisions ([Leavitt, 1987](#)). Thus, instead of welcoming risks, they prefer reducing their intensity and invest their efforts to control them. In this regard, transactional leaders' exceptional skills of management-by-exception active facilitate them to actively monitor the anticipated risks and get them managed well before they turn problematic ([Bass & Riggio, 2006](#)). However, transactional leaders are not as much sense of risks as transformational leaders. Thus, due to their shortcoming of management-by-exception passive, they sometimes fail to intervene until the problems get worse. Thus, these passive natured leaders let the problems worsen before taking corrective actions. Because these leaders are not change-oriented, therefore, they fail to manage the problems and avoid them passively ([Avolio & Bass, 2002](#)).

Transactional leaders are still better at managing risks. The most passive and ineffective pole of FRLT is laissez-faire leadership ([Avolio & Bass, 2002](#)). The laissez-faire doctrine is avoidance oriented. Instead of leading the organizations, such leaders prefer to stay aside from risks ([Jones & Rudd, 2007](#)). Thus, the fourth hypothesis, "perception of risk is likely to mediate between laissez-faire leadership and risk avoidance," is empirically supported. Laissez-faire leadership is avoidant in nature and disparaging in consequences ([Bass & Riggio, 2006](#)). They are incapable of making any sort of decision on their own because of their incompetence. Thus, when risk sparks, they prefer avoiding risks over facing them. Some of the laissez-faire leaders use rather subtle strategies of dealing with risks. These are, in fact, not practising leaders; instead, they just use the cover of leadership to camouflage their lack of ability or leadership skills. Thus, such leaders frequently shift their personal responsibilities to other employees in their organizations instead of refusing their duties in a rather straightforward

manner ([Shamir, Zaky, Breinin, & Popper, 2000](#)). Keeping in view the above-stated nature and attributes of laissez-faire leadership, “the assumption that perception of risk is likely to mediate between laissez-faire leadership and risk transfer” was supported in this study. The empirical data verified these suppositions regarding the laissez-faire leaders’ methods of dealing with risks in decisional scenarios ([Riaz, 2015](#)).

Conclusion

This study has inquired the Full Range Leadership Theory from an exclusive perspective of risk management. Growing emphasis on risk management in project management and business decisions has inspired this investigation. Instead of “decision making”, modern business managers are expected to show their managerial competence for “decision making under risk”, which is the prime requirement of the current business life. Change is the only feature of the world of business that is expected to remain stable. Thus, instead of stabilizers or avoiders, change agents are required to manage the transitions in the business world. The lone choice for today’s managers is to learn to live with change by accepting risks and devising systems to make constructive control of these risks in order to maximize risk-generated benefits. Thus, risk should be converted into corporate opportunity by accepting them firstly and controlling them secondly. In the present study, a transformational leader’s superior skills of accepting and controlling risks provide empirical support to the theoretical grounds of this leadership style on FRLT. As expected, laissez-faire leadership fails to respond to risks. These leaders preferred remaining unconcerned about risky situations by avoiding or transferring them to others in order to get rid of their leadership responsibility of managing risks.

Implications

The present study has targeted different models from the world of business and integrated them

into a coherent and comprehensive model of risk management in the corporate sector. The study tested the risk management ability of the leaders placed on different poles of Full Range Leadership Theory. Transformational leaders proved their heroism by accepting risks in the conditions requiring decisions under risk. Thus, the study facilitated in deciding that at times of risks, transformational leaders should be taken on board to accept risks. The set-theoretical assumptions behind transactional and laissez-faire leadership were also proved in this research, placing laissez-faire leaders on the risk avoidance pole and portraying them as incompetent in risk management which shares insights for top managers to let these leaders stay aside from risky scenarios and subsequent decisions. The value of this research is not limited to theory; instead, it is a hot topic of modern organizational life that how effectively risks can be managed and even positively utilized to make effective and efficient decisions. Thus, the present study instills many lessons of wisdom regarding different leaders’ distinct choices of risk management styles in decision making under the conditions of risk. These empirical insights can be better utilized for placing appropriate leaders for making decisions under risks by adopting appropriate risks management strategies. This all increases the applied value of this research.

Limitations and Suggestions

The use of self-report measures—as is the case of present research—leaves data at the risk of social desirability or response biases. In future, the possible restructuring of the data collection procedures by at least cross-rating of leadership through subordinates can be useful to partially handle this issue. Similarly, common-method variance is another issue that may negatively arbitrate the inferences. Triangulation can be more suitable in future studies inspired by similar constructs. More specifically, data and method triangulation must be carried out to enhance the validity of the findings. The present study has solely viewed risk management from the leadership eyes. Future research on the role of

personality types in the choice of risk management styles can be valuable. Risk varies in its intensity in all organizations; thus, the extension of this research to other organizations will increase its external validity. Targeting low, medium and high-risk jobs will help to build a comprehensive depiction of risk-response cycles in modern organizations. In spite of the fact that these limitations are due to address in future

studies, the present study is the sole inception inquisition of the risk management styles of leaders of FRLT when risk conditions compel managers to take decisions under risk and when no alternative is available for ensuing organizational success. The study offers decisions in sink-or-swim conditions of organizational life.

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