

The effect of personality traits on managers' risk tolerance

Hadi Daneshvar¹ , Rasoul Baradaran Hasanzadeh² , Marzieh Alivandi Vafa³ 

1- Department of Accounting, Tabriz Branch, Islamic Azad University, Tabriz, Iran.

2- Department of Accounting, Tabriz Branch, Islamic Azad University, Tabriz, Iran.

3- Department of Psychology, Tabriz Branch, Islamic Azad University, Tabriz, Iran.

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Abstract

The aim of this study is the effect of personality traits on managers' risk tolerance. The research method is applicable in terms of its purpose, quantitative in terms of implementation, and descriptive-correlational in terms of nature and method. The statistical population is all managers of companies active in the Tehran Stock Exchange. The sample size was determined based on the Morgan table as 139 people. In this study, purposive sampling method was used. A standard questionnaire based on a 5-point Likert scale was used to collect research data. The content validity of the tool was confirmed by specialists and experts, and Cronbach's alpha and composite reliability were used to measure the reliability of the tool. By distributing the questionnaire, the validity of the tool was measured with three methods: construct validity (external model), convergent validity (AVE), and divergent validity. The AVE value for all variables must be greater than 0.5. SPSS and PLS software were used to analyze the data, and the personality traits of extraversion, openness to experience, agreeableness, and conscientiousness had a positive and significant effect on the degree of risk tolerance, but the personality trait of neuroticism had no significant effect on the degree of risk tolerance.

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Corresponding Author: Rasoul Baradaran Hasanzadeh

Email: baradaran313@iaut.ac.ir

Extended Abstract

Introduction

Management risk tolerance has been conceptualized as real investment decisions that are characterized by uncertain outcomes (Christensen et al., 2015). Since future outcomes are uncertain, managers make estimates and judgments about the level and acceptability of risks associated with the company's strategic decisions (Osco et al., 2024).

Salehi et al. (2021) define financial risk tolerance as "the maximum amount of uncertainty that an individual is willing to accept when making financial decisions." However, some researchers argue that even if people are generally considered to be risk-averse or risk-taking, an individual's risk-taking decision and behavior in a domain cannot be reliably determined by considering a specific context. Rashid et al. (2024) as a topic in the financial, social, ethical, and psychological domains, have studied risk tolerance in depth. Researchers have distinguished between risk tolerance in different domains, namely financial, physical, social, and ethical. Various researchers have attempted to study the relationship between personality and risk tolerance. For example, Pak and Mahmood (2015) examined personality traits, risk-taking attitudes, and investment decisions among potential private investors in Kazakhstan. After measuring personality traits, risk tolerance level and investment decisions showed a positive effect of personality traits on risk tolerance behavior and investment decisions of the individual (Bai et al., 2022).

Regarding risk acceptance, research in the field of agency theory assumes that managers are more risk averse than shareholders, unless they are appropriately stimulated or monitored (Kraiczy et al., 2015). The behavioral model of agency theory also states that expectations theory and agency are complementary and assumes that managers are loss averse instead of risk averse (Mohammad Salehi et al., 2023). Accordingly, when the decision maker expects risk taking to lead to positive outcomes, risk acceptance is highly probable; while if negative outcomes are expected, risk taking is rejected. Finally, it is stated that individuals cognitively determine future outcomes in the present and choose future options based on the predicted outcomes (Bai et al., 2022). Economists believe that individuals constantly invest their assets to maximize their returns. However, investments inevitably carry some risks, as they are inherently associated with any economic decision. Investment decisions are influenced by various economic, demographic, and behavioral factors (Prasad et al., 2021). Behavioral finance literature shows that psychological factors such as personality traits, emotions, and past experiences, and non-psychological factors such as financial literacy, are important determinants of risk tolerance, which in turn influence investment decisions (Lim et al., 2014). Research shows that an individual's ability to tolerate failures and risks is related to their personality (Mathur & Nathani, 2019). This study, considering the widespread acceptance in the management and psychological literature (e.g., Weller & Thulin, 2014), addresses the question: Do personality traits affect risk-taking?

Theoretical Framework

Cooper (2003) states that "acceptability is a trait that refers to a person being more forgiving, considerate, and gentle". "Acceptable people avoid conflict with others. They evaluate any information that others provide positively without any critical evaluation." These people want to get along with others and have an optimistic view of human nature. On the other hand, those who score low on the trait of acceptability tend to be skeptical and curious.

Neuroticism and Risk Tolerance

Therasa and Vijayabanu (2015) state that "neurotic individuals tend to exhibit traits such as fear, anger, depression, and are easily susceptible to stress and are unable to control their

impulses.” Also, people who are neurotic are pessimistic, depressed, and anxious, and show a greater fear of uncertainty and ambiguity.

Extraversion

Extraversion is one of the personality types proposed by the BFF model. As defined by Lucas and Diener (2001), extraversion is a personality trait that includes several characteristics such as sociability, assertiveness, high activity level, positive emotions, and impulsivity.

Conscientiousness

The conscientiousness dimension of personality is being meticulous, determined, organized, systematic, responsible, reliable, and goal-oriented. Hence, conscientiousness is the tendency to demonstrate self-discipline, act conscientiously, avoid trouble, and aim for success, followed by planned rather than spontaneous behavior. Mayfield et al. (2008) claim that the characteristics of conscientious individuals give them a strong level of confidence in their ability to manage their finances.

Openness

Openness to experience refers to a trait in an individual’s personality that inspires them to explore and undertake new experiences. Costa and McCrae (1992) defined this personality trait using traits such as “originality, curiosity, ingenuity, and creativity.” This trait includes active imagination, aesthetic sensitivity, attention to inner feelings, preference for variety, intellectual curiosity, and a willingness to consider new ideas and try new things.

Doepegen et al. (2024) examined how knowledge management capabilities and organizational risk-taking affect business model innovation (BMI) in small and medium-sized companies. The results showed that external knowledge management capabilities directly stimulate BMI, and this effect is strengthened for companies with high risk tolerance.

Osco et al. (2024) examined the effect of CEO characteristics on risk-taking in companies listed on the Tehran Stock Exchange. The results showed that CEOs with high financial education and political connections and less conservatism have better ability to manage risk.

Research Methodology

This research is applicable in terms of purpose, and descriptive-correlational in terms of method. The population of the present study includes all senior managers of companies listed on the Tehran Stock Exchange. The sampling method of the present study was also based on the Cochran formula, which ultimately determined the sample size to be 139 people. A researcher-made questionnaire on a five-point Likert scale was used to collect data. To examine the validity and reliability of the tool, its use and reliability were confirmed by content validity (expert opinion) and Cronbach's alpha, respectively.

Research Findings

The findings of the present study showed that personality traits can shape different patterns of risk tolerance among managers. Some traits such as extraversion and openness to experience increase risk-taking, while conscientiousness, neuroticism, and acceptability strengthen managers' tendency towards caution and risk avoidance. These results are consistent with most previous studies and provide new evidence for the role of personality in managerial decision-making.

Conclusion

The results of the present study confirmed that the two traits of extraversion and openness to experience increase managers' risk tolerance, while conscientiousness and acceptability reduce the level of risk tolerance. In addition to enriching the theoretical literature, these results also have practical importance; because organizations can consider the suitability of

personality traits with the level of risk-taking required in different job situations in the process of selecting and developing managers.

The findings of the present study confirmed that extraversion is positively related to managers' risk tolerance. This result is consistent with the research of Nicholson (2005) and Rai et al. (2021), which showed that extroverted individuals make risky decisions more easily in challenging situations due to their high energy, desire for extensive interactions, and greater self-confidence. The results showed that openness to experience is one of the strongest predictors of managers' risk-taking. This finding is consistent with studies by Mayfield et al. (2008) and Nandan & Saurabh (2016), which have emphasized that people who are open to experience are more willing to enter risky situations due to their interest in innovation, curiosity, and creative thinking. Such results indicate that open-mindedness and cognitive flexibility can enhance managerial risk-taking. The present study showed that conscientiousness has a negative relationship with managers' risk tolerance. This finding is consistent with studies by Rai et al. (2021), which have emphasized that conscientious people usually avoid risky decisions due to their orderliness, accuracy, and desire to control situations. However, some studies such as Ferreira et al. (2019) reported a positive relationship in some contexts, which indicates the complexity of the role of conscientiousness. The findings of the study showed that neuroticism does not have a significant effect on managers' risk tolerance; in other words, the level of managers' neuroticism could not predict their risk tolerance. This result is consistent with some previous studies such as Vigil-Colet (2007) who reported a weak or insignificant relationship between neuroticism and risk tolerance. The results of the present study showed that acceptability has a negative relationship with managers' risk tolerance. This finding is consistent with the research of Sadiq & Khan (2019) who stated that agreeable people make more conservative decisions due to their desire to maintain positive relationships and avoid conflict.

Although agreeable managers create constructive organizational relationships, they are less inclined to make risky decisions because such decisions may lead to disagreement or dissatisfaction with others. This characteristic is considered an advantage in human resource management or public relations, but in areas such as strategic investment it can be an obstacle to innovation. Therefore, it is necessary to use the role of agreeable managers in accordance with the type of organizational tasks.