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CURRENT EMPIRICAL RESEARCH

Take the Risk or Play it Safe: The Manager's Point of View

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Modernist poet T. S. Eliot wrote, "Only those who will risk going too far can possibly find out how far they can go" (Eliot, 1931). Eliot's sentiment underlies the tension that managers face as they assess how far to go with new product innovation. Do they follow Eliot's advice and push the limits, or do they mitigate risk and guarantee smaller rewards? In their article, "A Managerial Perspective on Risk and Return for Corporate Innovation Projects," Kimberly K. Merriman and Dae-Il Nam explore this question.

Merriman and Nam assert that when assessing risk, managers are confronted with two truisms—"go big or go home" or "play it safe." In their article, they actually use the baseball analogy of swinging for the fences or bunting. Regardless of the metaphor, managers are faced with challenging decision about which projects to pursue in the quest for innovation. The article is built on MacCrimmon and Wehrung's (1986) conceptualization of risk as the magnitude of payoff at stake and the probability of the payoff occurring. Using patent output as a measure of payoff, the authors hypothesize that payoffs will be greater for projects perceived as having high likelihood for success but low-magnitude returns and those with low likelihood for success but high-magnitude returns, rather than those with low risk–low return or high risk–high return.

Consistent with their hypotheses, the authors found patent output higher for the "swing for the fences" and "play it safe" risk/return combinations. They discuss the implications of these findings and propose insightful explanations about why the other combinations are less successful.

Merriman and Nam make an important contribution to our understanding of the risk/return relationship by investigating outcomes of managerial decision making. Their findings provide a foundation for further study that might explore patent quality in addition to patent quantity.

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