

Managing risk attitude through emotional literacy



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People & the risk process

- **The** Critical Success Factor!
- People are responsible for :
 - setting risk acceptability thresholds
 - identifying risks (threats & opportunities)
 - assessing probability & impacts
 - proposing appropriate responses
 - implementing agreed actions
- All affected by **risk attitude**
 - what ?

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What is “risk”?

- “**Uncertainty** that **matters**”

- “Any **uncertain** event or set of circumstances which, if it occurs, will have a positive or negative effect on achievement of one or more **objectives**”

- Only defined in relation to **objectives**

- “What is **at risk**?”

- Affected by **perception**

- “How uncertain? How much does it matter?”



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What is “attitude”?



- Two definitions:

1. State of mind in relation to a fact or situation
2. Orientation of axes in relation to a reference plane

- People and aeroplanes:

- **Direction of lean** chosen to achieve desired outcome
- Attitude \neq motion, **choice** must be followed by **action**
- Various **components** of attitude (pitch/roll/yaw)
- Multiple **options** in given situation, no right answer
- May have preferred **default** option but can still **choose**

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What is “attitude”?

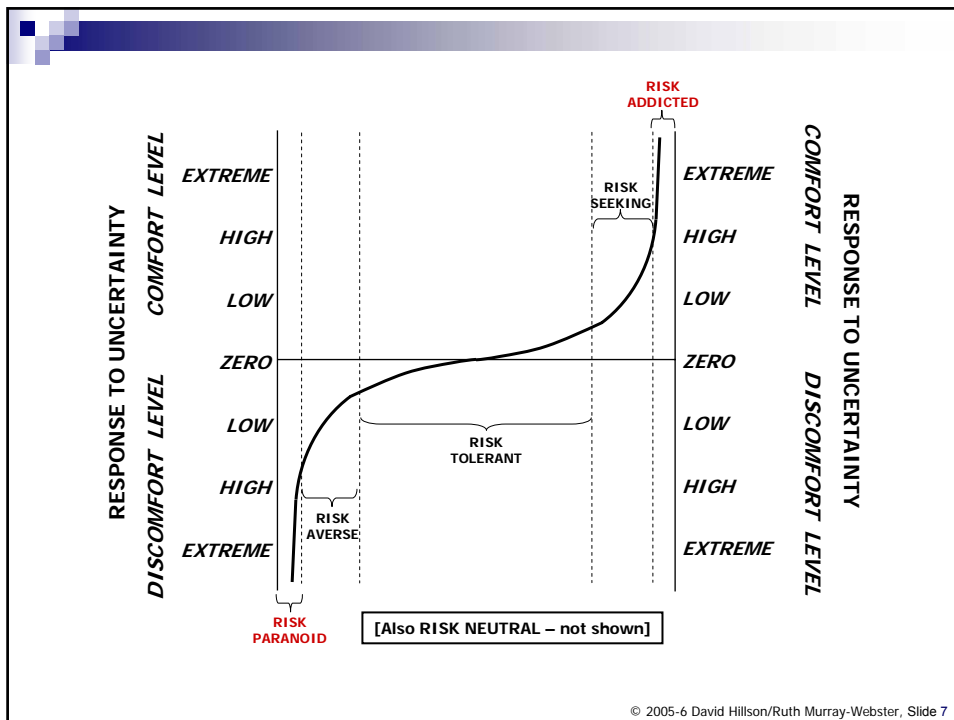
- “Chosen response to given situation”
- Only defined in relation to **something specific**
 - “Attitude *towards what*?”
- Affected by **perception** of situation
 - “What do I think it is?”
 - Perception = a range of factors that influence choice

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What is “risk attitude”?

- “Risk Attitude” = “Risk” + “Attitude”
 - “*Chosen response to uncertainty that matters, influenced by perception*”
- Risk attitude operates at **many levels**:
 - individual
 - groups
- Risk attitude exists on a **spectrum**

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Where are you on the risk attitude spectrum?

- ***“It depends”***
- On ...
 - External environment (situation)
 - Internal environment (subconscious factors)

And where should you be?

- ***“It depends”***
- On ...
 - Objectives

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What influences perception?

Three intertwined factors

1. Situational assessment (rational)

- e.g. *familiarity, manageability, proximity, propinquity*

2. Heuristics (subconscious) = “Rule of thumb” / “Gut feel”

- Individual, e.g. *availability, representativeness, anchoring*
- Group, e.g. *groupthink, risky/cautious shift, cultural conformity*

3. Emotions

- ???



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Emotion and risk attitude

■ Risk attitude is:

- Situational (not fixed)
- Chosen in response to given uncertain situation
- Exhibited by individuals and groups
- Affected by factors that influence perception, including emotions

■ Risk management : not just rational process!

■ ***Emotion matters!***

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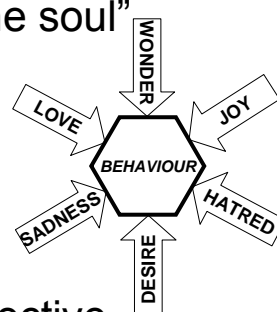
Emotions : Key questions

- What are they?
- Where do they come from?
- Why do they matter?
- Which ones have I got?
- What about us, you & them?
- Can emotions be managed? **HOW?**

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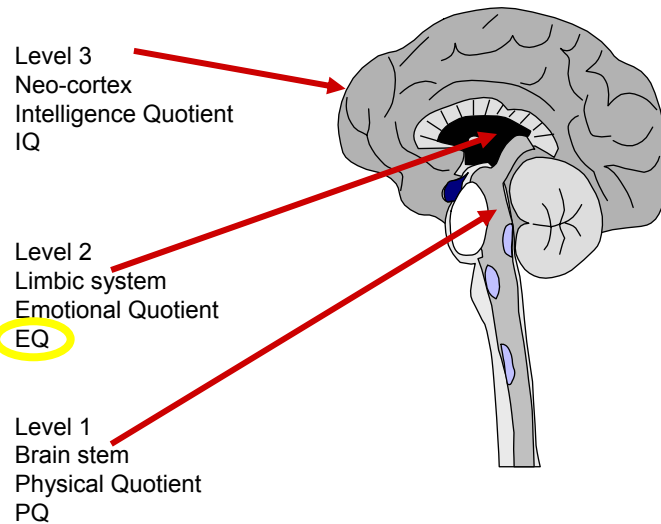
What is “emotion” ?

- “Instinctive feelings arising spontaneously”
- Descartes “Six passions of the soul”
 - Building blocks of all emotions
- Neutral until related to an objective
 - “Feelings *about what?*”



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The Triune Brain (Paul MacLean, 1974)



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Relevance to Risk Management

- Organisations need reliable decision-making in uncertain situations
- Decisions are made by emotion-feeling humans, not by a process
- **Emotions** affect perception...
 - ...perception affects **risk attitude**...
 - ...risk attitude affects **actions**
- More reliable decision-making needs emotional 'management'

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Key terms

Emotional Intelligence

- 1983, Howard Gardner “Multiple intelligences”
 - IQ = 20% of what a person can achieve?
- 1989 Salovey & Mayer “Emotional intelligence”
- 1990s EI popularised by Daniel Goleman
 - Measured as “EQ”

Emotional Literacy

- Less well known term in business literature
- Implies can be learned, nurtured, developed
- Not fixed

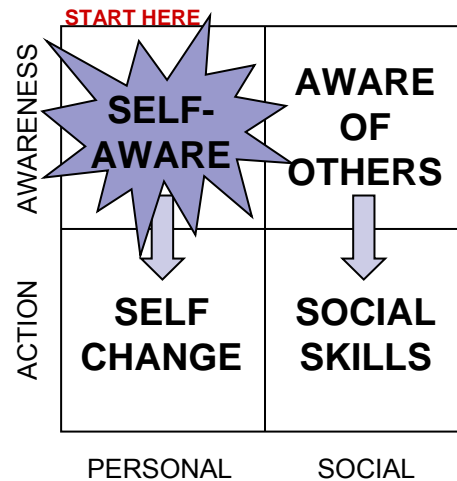
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Basic steps to Emotional Literacy

1. Recognise emotions
 - And acknowledge them as entirely natural
2. Understand emotions
 - Why and are they helping or hindering
3. Appropriately express emotions
 - In a way that supports your objective
4. Deal with emotions
 - Don't have to be a victim

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Managing emotion



Adapted from
Hay Emotional
Competence Inventory

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EL and Risk Attitude

- The essential first step : **self-awareness**
 - “How do I/we feel about the risk?”
 - “Why do I/we feel that?”
 - “Is it appropriate?”
 - “What am I/we going to do about it?”
- For both **individuals** and **groups**

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Scenario and roles



- Ruth is the Managing Director of a UK-based medium-sized company who has had recent success in extending the provision of company services into Brazil. Ruth wants to push forward into Poland next, building on the recent success in Brazil.
- David is the Finance Director and has asked for a short meeting to discuss and agree the risk management approach the company will take for the new project.
- You are an invisible and silent observer of the situation

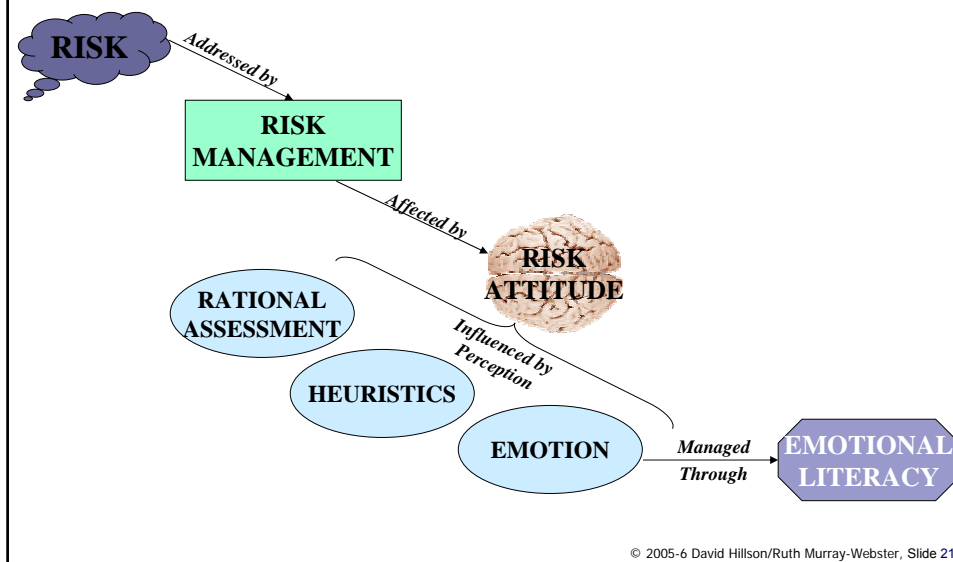
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Observer questions

- What emotions are being displayed by Ruth?
- What emotions are being displayed by David?
- How might emotion influence risk identification?
- How might emotion influence risk assessment?
- What risk attitudes are displayed by both parties are they appropriate?
- What might change if Ruth & David were emotionally literate?

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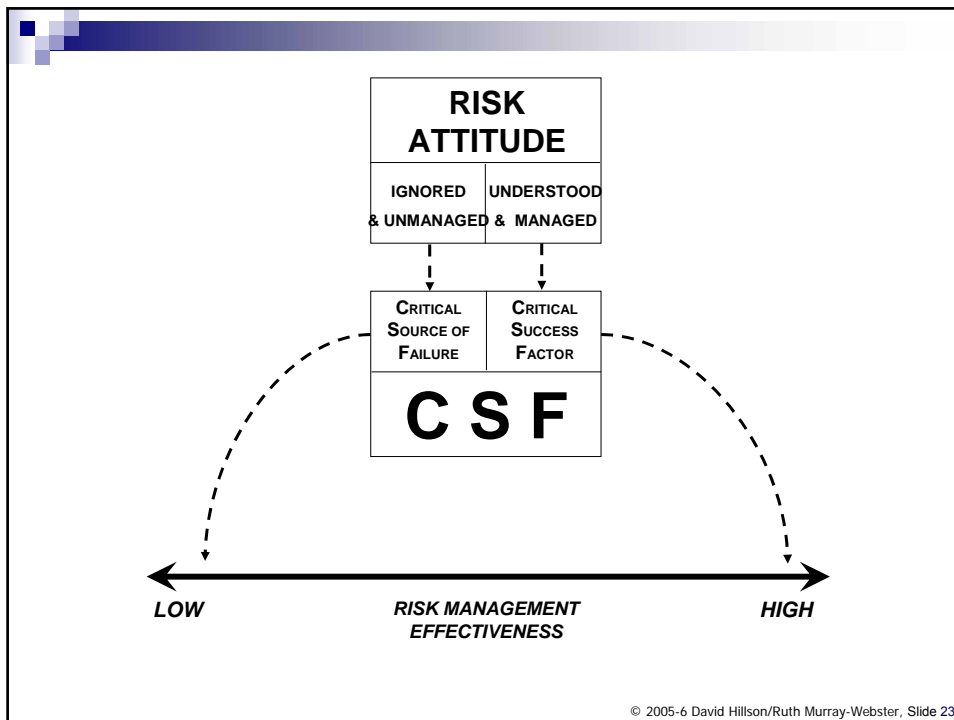
Why Emotional Literacy matters



Why Emotional Literacy matters

- Risk is “uncertainty that matters”
- Risk management is affected by risk attitude
- Risk attitude is “chosen response to perception of uncertainty that matters”
- Perception is influenced by many factors, including emotion
- Effective risk management requires emotions to be understood & managed
- Emotional Literacy offers a proven & effective approach

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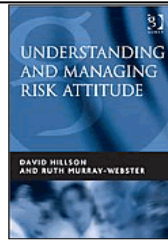
Summary

- Risk is managed by people not robots
 - Risk attitudes are vital
 - Individual & groups
 - Affected by perception, including
 - rational assessment, heuristics & emotion
- Awareness ⇔ understanding ⇔ management
 - “*Know thyself*”
- Develop **emotional literacy** to manage **risk attitude**
 - = *appropriate choice of risk attitude to meet specific needs of uncertain situation*

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Thank you

Further details are in David & Ruth's book,
"*Understanding & Managing Risk Attitude*"
Gower, 2005, ISBN 0-566-08627-1



Visit www.risk-attitude.com for 25% discount

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