

“IT LOOKS RISKY TO ME – WHAT DO YOU THINK?”

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Risk management is recognised as an essential contributor to business and project success, but in practice it often fails to meet expectations, as demonstrated by the continued history of business and project failures. There is wide agreement that *people* are the most significant Critical Success Factor for effective management of risk. Risk management is undertaken by people, acting individually and in various groups, with a multitude of influences both explicit and covert. People adopt *risk attitudes* which affect every aspect of the risk process, even if they are unaware of it. Understanding and managing these attitudes would significantly increase risk management effectiveness – so what are they?

“Risk attitude” can be defined as a “*chosen response to perception of significant uncertainty*”. Although we often use shorthand labels to describe risk attitudes, such as risk-averse (uncomfortable with uncertainty), through risk-tolerant (no strong response), to risk-seeking (welcoming uncertainty), in fact they exist on a spectrum, as shown in Figure 1. The same uncertain situation will elicit different attitudes from different individuals or groups, depending on how they perceive the uncertainty. And since attitude drives behaviour, different people will exhibit different responses to the same situation, as a result of their differing underlying risk attitudes – a situation regarded as too risky by one person or group may be seen as acceptable by another.

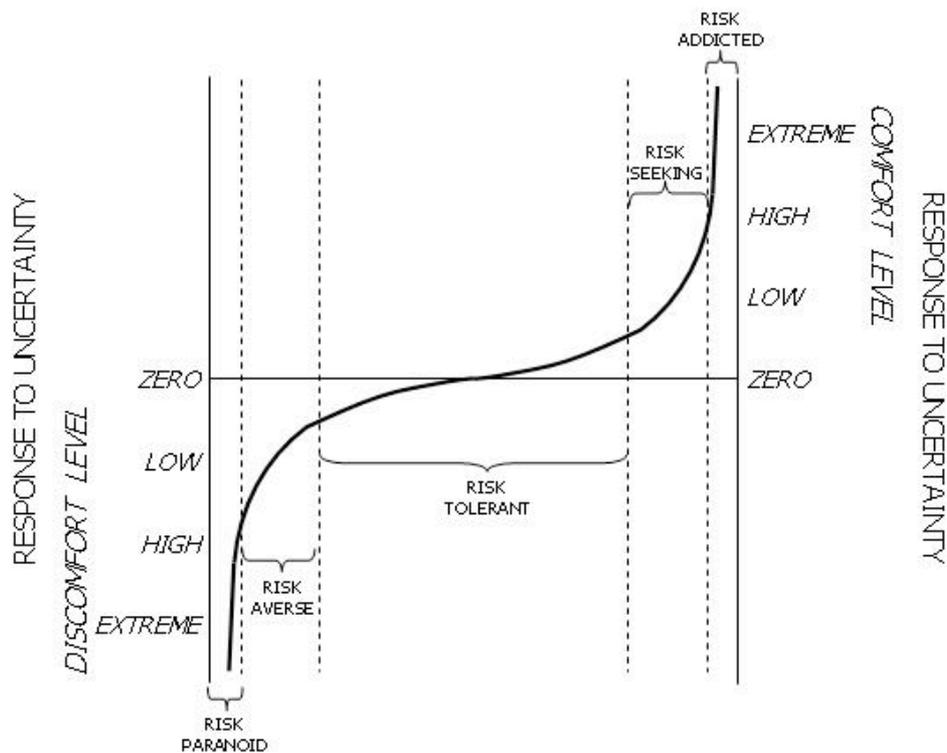


Figure 1 : Risk attitude spectrum

Risk attitudes are active at individual, group, corporate and national levels, and where they are recognised their influence on the risk process can be diagnosed and understood. But diagnosis is different from treatment. Sometimes the risk attitude initially adopted by an individual or group may not support effective management of risk or achievement of objectives, for example if a product innovation team is risk-averse, or if a nuclear safety inspector is risk-seeking. In these cases proactive action may be required to modify risk attitude.

Recent advances in the field of *emotional literacy* provide a means by which attitudinal change can be promoted and managed, for both individuals and organisations. The key is to recognise that all attitudes are a choice, and can therefore be modified. Emotional literacy can be summarised into four steps, as in Figure 2, with two dimensions (self and others). In each dimension there are two requirements – awareness and action. The aim is first to understand, then to make any modifications which might be necessary to support achievement of objectives.

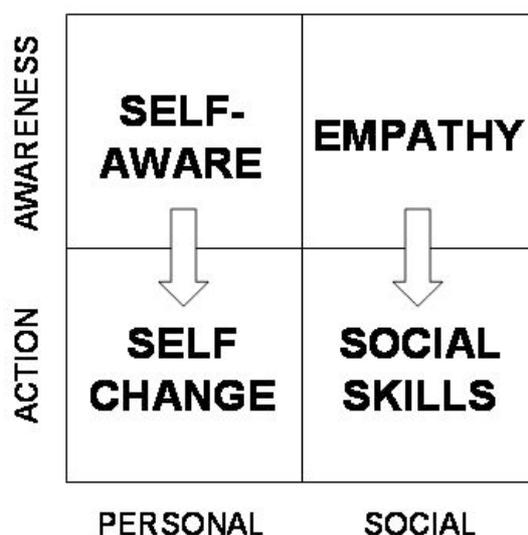


Figure 2 : Steps in emotional literacy

The first step in applying emotional literacy to the management of risk attitude is self-awareness. This applies to both individual and groups. To start the process of understanding and managing risk attitude, four simple questions can be asked :

1. How do I (or we) feel in this uncertain situation?
2. Why do I (we) feel that?
3. Is my (our) response appropriate to support achievement of the objectives?
4. If not, what can I (we) do about it?

This can be followed by a range of actions designed to modify attitude, removing barriers to risk management effectiveness and enhancing the ability to act appropriately.

Subconscious and unmanaged risk attitudes pose a significant threat to the ability of individuals and groups to achieve their objectives. Emotionally literate individuals and groups understand why they respond to risk in a particular way, and can adopt attitudes which are appropriate to the situation, helping them to maximise their risk management effectiveness.

ABOUT THE AUTHOR

Dr David Hillson FIRM FAPM is an international risk management consultant, and Director of RISK DOCTOR & PARTNERS (www.risk-doctor.com). He is a popular conference speaker and award-winning author on risk. He is recognised internationally as a leading thinker and practitioner in the risk field, and has made several innovative contributions to improving risk management. David is a Fellow of the Institute of Risk Management (IRM). His most recent book with Ruth Murray-Webster is *“Understanding and managing risk attitude”*, published by Gower in May 2005. IRM members can buy the book at a special 25% discount by contacting David at david@risk-doctor.com. Full details of the book are at www.risk-attitude.com.