

Understanding risk attitude

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Human perception of the risks present or absent in a particular situation biases decision-making. For risk management to be effective there is no option but to understand and manage risk attitude.

Why is understanding risk attitude important?

Risk management is essential for business and project success, because it focuses on the proactive identification and management of uncertainties in order to minimise threats, maximise opportunities and optimise achievement of objectives.

In practice, however, risk management often fails to meet expectations, as demonstrated by repeated business and project failures. Foreseeable threats materialise into problems and crises, and achievable opportunities are missed leading to lost benefits. Clearly some essential ingredient is missing.

Research and experience both indicate that one of the reasons why risk management promises so much and often delivers so little is due to the attitudes that individuals and groups of people hold towards the perceived threats and opportunities. With a little thought we will all be able to recall situations where our own personal viewpoint on whether a particular risk is worth taking or not differs widely from a colleague's viewpoint. At a team level, some teams will share the attitude that a particular threat to a project needs to be avoided, or carefully managed; other teams will hold a completely different attitude to the situation and therefore take different actions.

It is a fact that risk attitudes to a particular situation vary from person to person, team to team, organisation to organisation and, some would say, nation to nation. Risk attitude is a source of significant bias on decision-making and the effectiveness of the risk management process. It follows that to improve risk management we must understand more about risk attitude.

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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. The first step to understanding is to unpick the term 'risk attitude'.

Defining risk, attitude and risk attitude

Firstly we need to understand and accept the nature of risk. Risk can be defined as 'an uncertain event or condition that if it occurs will have a positive or negative effect on one or more objectives'. If this definition (encompassed in the

APM *Body of Knowledge 5th edition* and *PRAM Guide*) is accepted then it follows that there is no 'risk-free' zone. A decision to do nothing explicitly avoids the opportunities that exist as well as leaving threats unmanaged.

Secondly we need to understand and accept the nature of attitude. Attitude can be defined as a 'chosen state of mind, mental view or disposition with regard to a fact or state'. Many of the attitudes we adopt may be habitual, but we nevertheless are free to choose a different course.

Thirdly we need to understand the many factors that affect our perception of a particular situation as this perception drives our attitude to the inherent risks. There are many perceptual factors that exist and co-exist to shape risk attitude. These can be most simply grouped into three: situational factors, heuristics and emotions. It is at the experiential level not a rational level that our risk attitudes are shaped.

Putting the three aspects together a working definition of risk attitude is: "A chosen response to an uncertainty that matters, influenced by perception."

Working with this definition we can see from Figure 1 that risk attitudes exist on a spectrum from risk-aversion (uncomfortable with uncertainty), through risk-tolerant (no strong response), to risk-seeking (welcoming uncertainty). Risk attitudes are active at many levels and where they are recognised their influence on the risk process can be diagnosed and understood.

Starting to understand risk attitude

But diagnosis is different from treatment. Sometimes the risk attitude adopted initially by an individual or group may not support effective management of risk, for example if a product innovation team is risk-averse, or if a nuclear safety inspector is risk-seeking. In these cases action may be required to modify risk attitude.

This is where a discipline that is often viewed by many as being logical, systematic and rational enters

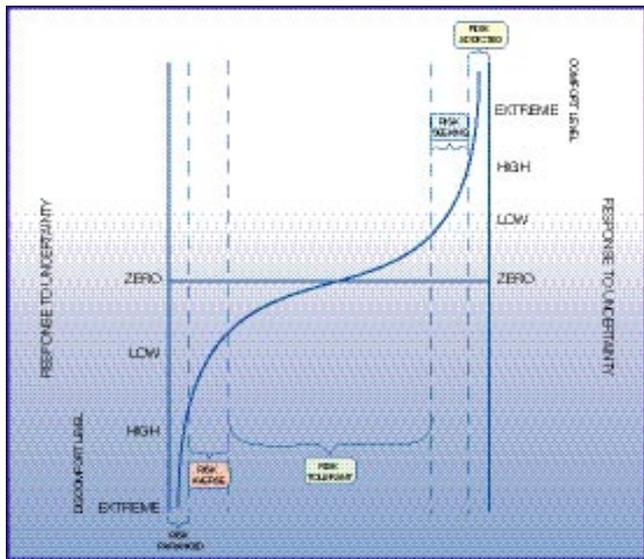


Figure 1

the realm of the fuzzy, ambiguous and unpredictable nature of human beings and their decision making processes. To understand and modify risk attitude requires an understanding of the workings of the human brain and the area known generically as risk psychology.

Much published work in this area has focused on decision making in risky situations such as gambling. Less work has been done to understand the human aspects of decision making during project risk management, but there is an increasing interest in this field. There are some valuable things to learn from the fields of risk psychology, emotional intelligence and emotional literacy in order to move beyond mere implementation of a risk process and towards a people-centred approach for risk management.

Recent advances in these fields 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.

The subject is huge but the essential first step in applying emotional literacy to the management of risk attitude is always self-awareness. This applies to both individuals and groups. To start the process

of understanding and managing risk attitude, four simple questions can be asked:

How do I/we feel in this uncertain situation?

Why do I/we feel that?

Is my/our response appropriate to help me/us achieve objectives?

If not, what am I/we going to do about it?

Risk psychology has been studied by academic researchers for many years, but there has not been much practical guidance on workplace application. Because risk attitude has such a major effect on all elements of the risk process, it is time to pay attention to this vital topic.

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. Working to understand risk attitudes is a worthwhile exercise on its own, but it is infinitely more valuable when combined with practical ways to manage those risk attitudes, so that

they support achievement of objectives and ensure that managed change results in appropriate decisions being taken in the light of uncertainty.

Emotional literacy provides the vehicle for people to examine their attitudes to risks and to change them if they are leading away from the desired objective rather than towards it.

Further reading:

Slovic, P, *Trust, Emotion, Sex, Politics, and Science: Surveying the Risk-Assessment Battlefield*
www.decisionresearch.org
 Hillson, D and Murray-Webster, R, *Understanding and Managing Risk Attitude*, Gower (2005)

Recommended websites:

www.risk-attitude.com
www.citizenshipfoundation.org.uk

This article is relevant to sections 2.5 and 7.7 of the APM Body of Knowledge 5th edition.