

# Managing Risk Attitude using Emotional Literacy

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## Introduction

Risk management is recognised as an essential contributor to business and project success, since it focuses on addressing uncertainties in a proactive manner in order to minimise threats, maximise opportunities, and optimise achievement of objectives. There is wide convergence and international consensus on the necessary elements for a risk management process, and this is supported by a growing range of capable tools and techniques, an accepted body of knowledge, an academic and research base, and wide experience of practical implementation across many industries.

Despite this vision, in practice risk management often fails to meet expectations, as demonstrated by the continued history of business and project failures. Foreseeable threats materialise into problems and crises, and achievable opportunities are missed leading to lost benefits. Clearly the mere existence of accepted principles, well-defined processes, and widespread practice is not sufficient to guarantee success. Some other essential ingredient is missing.

The most significant Critical Success Factor for effective risk management is the one most often lacking: an appropriate and mature risk culture (Hillson, 2002a). Research and experience both indicate that the attitude of individuals and organisations has a significant influence on whether risk management delivers what it promises (Hillson & Murray-Webster, 2005). Risk management is undertaken by people, acting individually and in various groups. The human element introduces an additional layer of complexity into the risk process, with a multitude of influences both explicit and covert. These act as sources of bias, creating preferred risk attitudes which affect every aspect of risk management. Risk attitudes exist at individual, group, corporate and national levels, and can be assessed and described with some degree of accuracy. This allows sources of bias to be diagnosed, exposing their influence on the risk process.

But diagnosis is different from treatment. Where preferred risk attitude is not conducive to effective risk management, action is required to modify attitude. Recent advances in the field of emotional intelligence provide a means by which attitudinal change can be promoted and managed, for both individuals and organisations.

It is important firstly to understand risk attitudes and the impact they can have on the risk management process if their presence and influence are not recognised or managed. It is also important to understand how development of emotional literacy can provide practical and powerful tools for modifying risk attitudes. This paper addresses both aspects and offers guidelines on applying emotional literacy to understanding and managing risk attitude.

## What is Risk?

The word “risk” is a common and widely-used part of today’s vocabulary, relating to personal circumstances (health, pensions, insurance, investments etc), society (terrorism, economic performance, food safety etc), and business (corporate governance, strategy, business continuity etc). Yet somewhat surprisingly, there is still no broad consensus on the meaning of this term (Hillson, 2002b; Hillson, 2003). Various national and international standards and guidelines exist which mention risk, but there are many different definitions and underlying concepts in these documents (Raz & Hillson, 2005). Even among risk practitioners in the various professional bodies there is an ongoing debate about the subject matter at the heart of their discipline. And of course there is huge variation in the general literature, reflecting the lack of official agreement on the basic definition of risk (Hillson, 2006).

Despite differences of detail, all definitions agree that risk has two characteristics: it is related to *uncertainty*, and it has *consequences*. Risk however is not the same as uncertainty, whether aleatoric variability or epistemic ambiguity. The key distinction between uncertainty and risk arises from consideration of consequences. Perhaps the simplest definition of risk is “*uncertainty that matters*”, since uncertainty without consequence poses no risk. In this sense, risk cannot be defined unless it is related to objectives of some kind. A more complete definition therefore might be “*an uncertain event or condition that, if it occurs, has a positive or negative effect on at least one [project] objective*” (Project Management Institute, 2004, p238).

Defining this link between risk and objectives is essential to the process of risk management, since it is a prerequisite for identifying risks, assessing their significance, and determining appropriate responses. It is also however a crucial factor in understanding risk attitudes, since these are also driven by the objectives of the individual, group or organisation concerned, and the extent to which the risk “matters”.

## What is Attitude?

“Attitude” is another word used commonly but loosely. Dictionaries offer two differing definitions. The first relates to the inner working of the human mind, where attitude is “*state of mind, mental view or disposition with regard to a fact or state*”. A second equally valid definition describes the positioning of an object in space, such as an aircraft, spaceship, or missile, where attitude is said to mean “*orientation of axes in relation to some reference plane, usually the horizontal*”.

It is interesting to note that both definitions insist that attitude can only exist in relation to a datum point – either a fact towards which one holds a mental disposition, or a reference plane such as the horizon against which orientation is measured. In this respect “attitude” is similar to “risk”, which is defined in terms of objectives.

Although at first sight mental views and aircraft positioning do not seem to have much in common, in fact the two definitions of attitude are not incompatible or unrelated (Hillson & Murray-Webster, 2005):

- Just as the pilot makes a decision on what attitude to adopt for the aircraft in three-dimensional space in order to position it to execute the desired manoeuvre, so an individual or group can make an attitudinal choice to lean towards a particular desired response, behaviour or outcome.
- The attitude of an aircraft does not in itself result in motion, although it is a direct influence on the direction taken. In addition to attitude some force must act on the aircraft to generate motion – analogous to motivation.
- Aircraft attitude needs to be followed by movement if it is to result in execution of a manoeuvre, and similarly individual or group attitudes must be translated into action if the desired outcome is to be achieved.
- Attitude in space can be described using a number of elements, usually termed “pitch”, “roll” and “yaw”. It is also possible to subdivide human attitudes into their component dimensions to enable them to be better understood and managed.
- As the number of degrees of freedom for aircraft movement is almost unlimited within the three dimensions of space, so there is a bewildering array of potential attitudes that can be chosen in any given situation.
- While there may be a preferred response (initial default positioning), the final outcome remains a matter of choice.

As a result of this comparison, the term “attitude” as applied to internal human mental processes and positioning is used here to refer to *chosen responses* to situations. Some attitudes may be deeply rooted, representing core values for the individual or group, but they nevertheless represent a choice. Other attitudes may be more malleable. Attitudes differ from personal characteristics in that they are situational responses rather than natural preferences or traits, and chosen attitudes may therefore differ depending on a range of different influences. Clearly if these influences can be identified and understood, the possibility of changing them is introduced, allowing individuals and groups to manage their attitudes proactively. Emotional intelligence and emotional literacy provide the basis for achieving such attitudinal management and this concept is explored below.

This attribute of attitudes to be capable of modification is essential to the case for understanding and managing risk attitudes. If attitudes were fixed inherent attributes of individuals, inborn and unchangeable, then while it might be possible to *understand* them it would never be possible to *manage* them. The attitudes of individuals or groups would then not be comparable to an aircraft flying freely through the air, but would instead be like a cruise missile pre-programmed to strike a fixed target.

### What is Risk Attitude?

If “risk” is defined as “*an uncertainty that could have a positive or negative effect on one or more objectives*”, and “attitude” is defined as “*chosen state of mind, mental view or disposition with regard to a fact or state*”, then combining the two gives an initial definition of “risk attitude” as “*chosen state of mind with regard to those uncertainties that could have a positive or negative effect on objectives*”. One more factor is important to consider however, namely **perception**. Both “risk” and “attitude” are influenced by perception (Tversky & Kahneman, 1974; Kahneman & Tversky, 1979; Kahneman et al., 1986; Lopes, 1987; Slovic, 2000; Gilovich et al., 2002; Slovic et al., 2004), including rational **situational factors** (such as familiarity, manageability, proximity or propinquity), subconscious **heuristics** operating at both individual and group level (for example availability, groupthink, or risky/cautious shift), and **emotions** (discussed below). The influence of perception on risk affects the answers to such questions as “How uncertain is it? And how much does it matter?” Adding the influence of perception into the initial definition of risk attitude above leads to the following more complete definition (Hillson & Murray-Webster, 2005):

**Risk attitude is “chosen response to uncertainty that matters, influenced by perception”**

A range of possible *attitudes* can be adopted towards the same situation, and these result in differing *behaviours*, which lead to *consequences*, both intended and unintended. Indeed behaviour is the only reliable diagnostic indicator of inner attitude, and considerable attention has therefore been paid to behavioural psychology and management by those seeking to understand and manage the effects of human factors in business (Yates, 1992). Another approach however, which might prove more fruitful, is to seek to understand and address the underlying attitudes, rather than concentrating on the presenting behavioural symptoms.

One key conclusion on which researchers and practitioners are agreed is that risk attitudes exist on a spectrum, as shown in Figure 1. The same uncertain situation will elicit different risk 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 will be seen as acceptable by another.

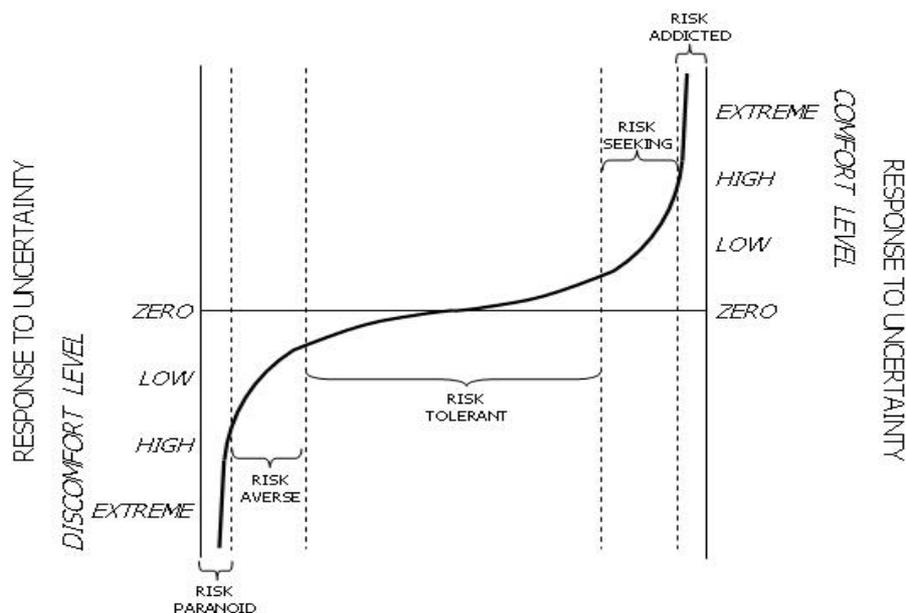


Figure 1: Risk attitude spectrum (from Hillson & Murray-Webster, 2005)

## What is Emotional Literacy?

Everyone experiences emotions throughout their waking and working day, and even when they sleep. Yet like the term “risk”, there is no single widely-accepted definition. Dictionary definitions of “emotion” range from “disturbance of mind” to “mental sensation or state”. However emotion is situational, and is only meaningful in context. For example fear may prevent someone from pursuing a course of action that would be beneficial for them, and such fear would be negative. Conversely if fear prevents the person from pursuing a dangerous course of action, then it is positive. Emotions have no absolute meaning; their significance is only important relative to a given situation. In this way emotions are like both risk and attitude – only relevant in relation to defined objectives.

However much people may like to believe that in work situations they behave logically, analysing problems and making decisions in a rational way, the reality is that emotions are always present, influencing behaviour and actions (Slovic, 2005). The rich English vocabulary has many words to describe how people feel. Some emotions like *fear, anger or desire* are so primal . that it is difficult for people to consciously over-ride them. Resultant actions may be positive or negative, empowering or debilitating, but it is certain that emotions will affect behaviour. Not only do emotions drive the actions of individuals, they also affect the wider groups in which people work.

Effective decision-making requires individuals and groups to be aware of the emotions that are driving them in any particular situation. This awareness does not make the emotion go away, although awareness and understanding enables the choice to change, but it does provide the basis for harnessing emotions to produce results that lead towards rather than away from goals. This leads to two central concepts:

- Emotions can be recognised, understood, appropriately expressed and managed
- People can harness emotions to help themselves and others succeed

**Emotional intelligence** offers an approach towards achieving these two aims. Although the term has only become popular recently (Goleman, 1995, 1998, 2001, 2003; Mayer & Geher, 1996; Druskat & Woolf, 2001; Goleman et al., 2004; Salovey et al., 2004), the concept is not new; philosophers and psychologists for centuries have been stressing the importance of understanding and managing one’s own emotional state. However until recently, businesses have tended to view emotions as private and not to be expressed at work. These views have changed in more recent years and it is recognised that emotions must be considered and expressed in a productive way (Chernis & Goleman, 2001).

Although there is no absolute agreement between authors on the features that together make an emotionally intelligent person, there is considerable overlap and enough synergy to draw conclusions about the critical dimensions. These dimensions can then be mapped to the four major stages that individuals and groups need to go through to become emotionally *literate* as shown in Table 1. **Emotional literacy** takes the components of emotional intelligence and applies them so that emotions are not just recognised, understood, and appropriately expressed, but also managed (Sharp, 2001; Steiner, 2003).

<p><b>1. RECOGNISE EMOTIONS</b></p> <ul style="list-style-type: none"> <li>• Self-awareness</li> <li>• Empathy</li> <li>• Organisational awareness</li> <li>• Trust</li> </ul>	<p><b>2. UNDERSTAND EMOTIONS</b></p> <ul style="list-style-type: none"> <li>• Relative regard</li> <li>• Personal power and Self-confidence</li> <li>• Flexibility/Behavioural adaptability</li> </ul>
<p><b>3. APPROPRIATELY EXPRESS EMOTIONS</b></p> <ul style="list-style-type: none"> <li>• Goal directedness and Emotional self-control</li> <li>• Personal openness and Emotional honesty</li> <li>• Assertiveness and Conflict handling</li> <li>• Optimism</li> <li>• Constructive discontent</li> </ul>	<p><b>4. MANAGE EMOTIONS</b></p> <ul style="list-style-type: none"> <li>• Intentionality/Impulse control</li> <li>• Emotional resilience/Stress tolerance</li> <li>• Interdependence</li> <li>• General health and Quality of life</li> </ul>

Table 1: Components of emotional literacy

## Emotional Literacy and Risk Attitudes

Risk management is naturally exposed to sources of explicit and implicit bias, since all elements of the risk process are performed by individuals and groups of people whose risk attitudes affect every aspect of risk management. Where the risk attitude adopted is not conducive to effective risk management, action is required to modify attitude. Emotional literacy provides a means by which attitudinal change can be promoted and managed, for both individuals and groups.

Risk can be defined as *uncertainty that matters*, including both threats and opportunities. In a similar way, emotional literacy in the context of risk management is about understanding and managing *emotions that matter*, including those that help and those that hinder. All elements of the risk process are affected by the emotions of the stakeholders, at both individual and group levels, including risk identification, assessment of probability and impacts, and selection of an appropriate response strategy and actions.

Risk attitudes are usually adopted subconsciously and without conscious validation. This can be good since it allows people to act quickly in uncertain situations, but it can also be bad if it results in sub-optimal decisions or behaviour. Like any other attitude however, **risk attitudes are a choice** for an individual or group. Some people may not realise this, believing themselves to be inherently and unchangeably risk-averse or risk-seeking. This is most likely to be because their repeated choice has become so deeply habitualised that they behave as if there is no choice. A better approach however is for individuals and groups to learn how to assess each situation, and then to choose a risk attitude explicitly, selecting the attitude which is most appropriate to the situation and which offers the best chance of achieving their objectives. This approach requires emotional literacy, involving both awareness and action, which is likely to be more effective than “choosing not to choose” and simply adopting whatever risk attitude comes naturally.

Figure 2 presents a simple process where the application of emotional intelligence and emotional literacy can be used to assess risk attitude and to modify it where necessary (Hillson & Murray-Webster, 2005). Each step in this process can be implemented by addressing a series of questions designed to encourage self-awareness and promote self-modification. The same process can be applied by either individuals or groups.

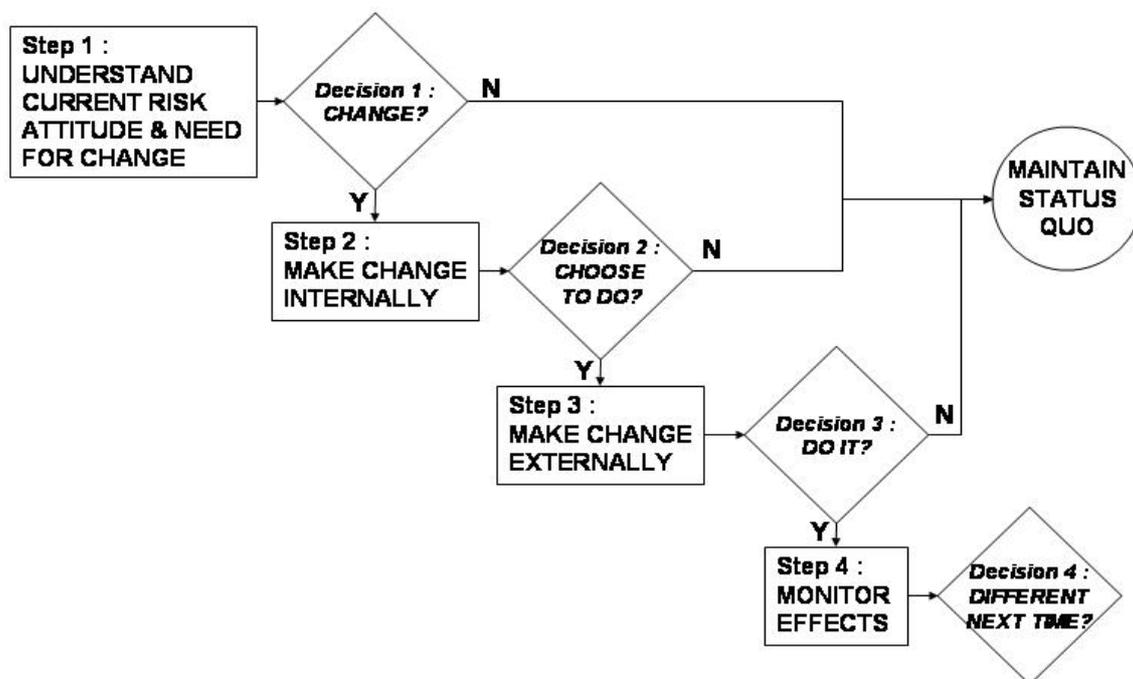


Figure 2: Applying emotional literacy to manage risk attitude (from Hillson & Murray-Webster, 2005)

## Conclusion

Risk matters. Risk attitudes matter. Emotions matter. Each of these statements is connected by a focus on achievement of objectives, which are the measure of “mattering”. The various dimensions of risk, risk attitude and emotions can each be described and assessed in isolation using well-proven models and frameworks. But they interact in powerful ways, and those interactions play a significant part in determining the effectiveness of each separate part. For individuals, groups and organisations who need to ensure that management of risk is effective, it is essential that they understand and manage all elements of this complex web. How are risk attitudes adopted and modified? How does the perception of risk affect behaviour and decision-making? Why are emotions important in the workplace?

Despite the complexities of this challenge, some core concepts have been defined and the broad outlines of a solution exist. Applying the proven techniques of emotional literacy will start to unveil the mysteries of risk attitudes and allow steps to be taken towards improved risk management effectiveness.

Subconscious and unmanaged risk attitudes pose a significant threat to the ability of individuals and groups to achieve their objectives. Developing emotional literacy at both individual and group levels offers a route towards understanding and managing risk attitudes, allowing the undoubted benefits to be reaped and creating a framework for ongoing learning and increased risk management effectiveness.

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