



Understanding & Managing Risk Attitude

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Risk management is essential for business and project success, because it focuses on addressing uncertainties proactively in order to minimise threats, maximise opportunities, and optimise achievement of objectives. However, in practice 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.

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” can be defined as “*uncertainty that could have a positive or negative effect on one or more objectives*”, and “attitude” is “*chosen state of mind, mental view or disposition with regard to a fact or state*”. Combining the two gives a working definition of “risk attitude” as “*chosen state of mind with regard to those uncertainties that could have a positive or negative effect on objectives*”, or more simply “*chosen response to perception of significant uncertainty*”.

Risk attitudes exist on a spectrum from risk-aversion (uncomfortable with uncertainty), through risk-tolerant (no strong response), to risk-seeking (welcoming uncertainty). They 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, 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. Recent advances in the field of Emotional Intelligence and 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.

This subject is so big that it could fill a book*, but 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 (replace “I/my” with “we/our” for a group) :

1. How do I feel in this uncertain situation?
2. Why do I feel that?
3. Is my response appropriate to help me achieve my objectives?
4. If not, what am I 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.

* See “Understanding and managing risk attitude” by David Hillson and Ruth Murray-Webster, published in May 2005 by Gower (ISBN 0-566-08627-1). For full details visit the Publications area of www.risk-doctor.com.

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