

Understanding & Managing Risk Attitude



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Presentation to PMI UK Chapter London event
on 7 September 2005 by
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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**

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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**?"

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What is "attitude"?



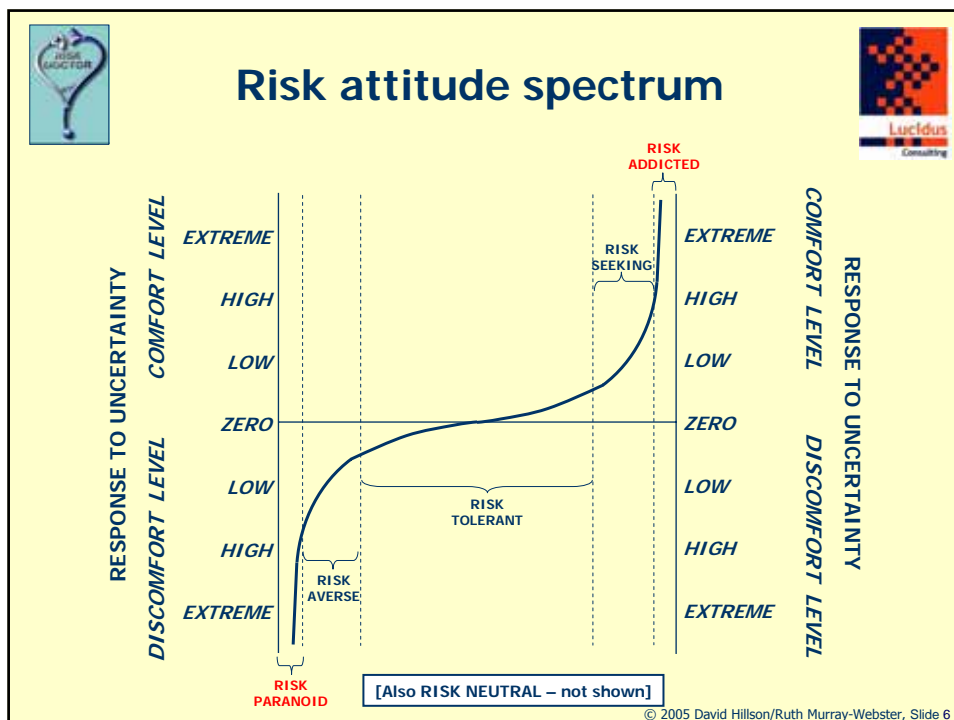
- ▶ Two definitions :
 1. State of mind **in relation to** a fact or situation
 2. Orientation of axes **in relation to** a reference plane
- ▶ People and aeroplanes :
 - ▶ **Choose** direction of lean to achieve desired outcome
 - ▶ Attitude ≠ motion, **choice** must be followed by **action**
 - ▶ Various **components** of attitude (pitch/roll/yaw)
 - ▶ Multiple **options** in given situation, no right answer
 - ▶ **Extremes** cause instability (stall/spin)
 - ▶ Preferred **default** option but can still **choose**

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What is "risk attitude"?

- ▶ Risk attitude definition :
 - ▶ *"Chosen response to perception of significant uncertainty"*
- ▶ Risk attitude operates at **many levels** :
 - ▶ individual
 - ▶ groups
- ▶ Risk attitude exists on a **spectrum**

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Where are you?

- ▶ ***"It depends"***
- ▶ On ...
 - ▶ External environment (situation)
 - ▶ Internal environment (subconscious factors)

And where should you be?

- ▶ ***"It depends"***
- ▶ On ...
 - ▶ Objectives

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Three subconscious factors

- 1. Perceptual factors**
 - ▶ View of situation, e.g. *familiarity, manageability, proximity, propinquity*
- 2. Heuristics = "Rule of thumb" / "Gut feel"**
 - ▶ Individual, e.g. *availability, representativeness, anchoring & adjustment*
 - ▶ Group, e.g. *groupthink, risky/cautious shift, cultural conformity*
- 3. Emotions**
 - ▶ *???*

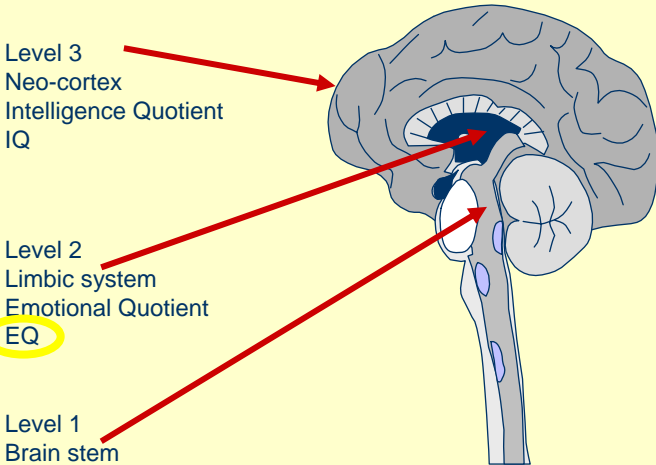
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Emotion and risk attitude

- ▶ **Risk attitude is:**
 - ▶ A choice
 - ▶ Affected by a number of things, including how a person feels about something
 - ▶ Personal to individual and group
 - ▶ Situational (not fixed)
- ▶ Risk management is not just a rational, logical process!

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The Triune Brain (Paul MacLean)



- Level 3
Neo-cortex
Intelligence Quotient
IQ
- Level 2
Limbic system
Emotional Quotient
EQ
- Level 1
Brain stem
Physical Quotient
PQ

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We're not making it up!

- ▶ "Psychologists who study risky choice don't talk about a surprisingly large number of factors that are psychologically relevant in choosing among risks. Words such as fear, hope, safety, danger, fun, plan, conflict, time, duty and custom are not to be found in the theoretical vocabulary, nor can these words be given meaning in psychophysical or rational theories"
Lopes, 1987, from 'Beyond hope & fear: the psychology of risk'
- ▶ "Proponents of formal risk analysis tend to view affective responses to risk as irrational. Current wisdom disputes this view."
Slovic et al, Risk Analysis, Volume 24 No.2, 2004

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Emotional management

| | | | |
|------------------|--------------------|------------------------|--|
| | START HERE | | |
| AWARENESS | SELF-AWARE | AWARE OF OTHERS | |
| | ↓ | ↓ | |
| ACTION | SELF CHANGE | SOCIAL SKILLS | |
| | PERSONAL | SOCIAL | |

Adapted from Goleman's Emotional Competence Inventory
www.ei.haygroup.com

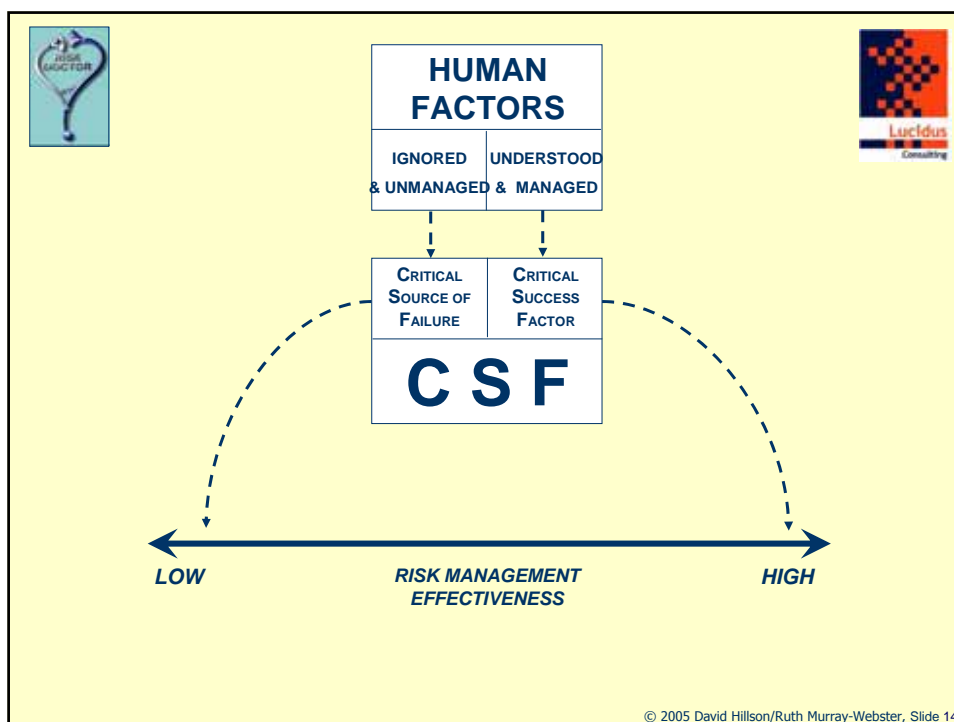
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Developing emotional literacy

- ▶ The essential first step : **self-awareness**
 - ▶ “How do I/we feel?”
 - ▶ “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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Summary



- ▶ Risk is not managed by robots
 - ▶ Human psychology is major influence
 - ▶ Risk attitudes are key
 - ▶ Individual & Groups

- ▶ Awareness ⇨ understanding ⇨ management
 - ▶ "Know thyself"

- ▶ Develop **emotional literacy** to produce **risk maturity**
 - ▶ = *appropriate choice of risk attitude to meet specific needs of uncertain situation*

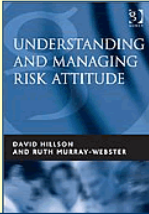


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Any questions?

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



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For more information or queries, contact
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