



RISK DOCTOR BRIEFING

OPTIMISM, PESSIMISM, REALISM & RISK

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The former British Prime Minister Winston Churchill once said that “A *pessimist* sees the difficulty in every opportunity; an *optimist* sees the opportunity in every difficulty.” This exposes an interesting link between pessimism, optimism and risk attitude. One result of **pessimism** is an undue focus on threats which could lead someone to become risk-averse, wanting to avoid or minimise negative outcomes wherever possible, and becoming over-protective. On the other hand, **optimism** can produce an excessive concentration on opportunities, which can result in a risk-seeking attitude, looking for the upside in every uncertainty, and taking on too much risk exposure.

Always being either pessimistic or optimistic will not help us to be fully effective in managing risk. If we only look for threats we will miss potential benefits. But an exclusive focus on opportunities will result in problems happening that could have been avoided. Instead we need a proper balance between both perspectives, allowing trade-offs between threats and opportunities, in order to give us the best possible chance of achieving our goals. In place of pessimism or optimism, we need to aim for **realism**.

A realistic view of the situation will seek out both bad and good risks, including threats and opportunities. Both of these types of risk need to be identified and assessed so that we can develop and implement effective responses which will avoid or minimise threats while capturing or enhancing opportunities.

The following steps will help us to ensure realism in our approach to managing risk:

- **Recognise and value different perspectives.** Our risk process should encourage and use input from both pessimists and optimists. We need to listen to people who warn us about what might go wrong, as they may have seen something which we have missed. We should also allow people to explore possible upsides that could result in unplanned gains.
- **Include peer challenge in the risk process.** The role of “devil’s advocate” can be very useful in testing established attitudes to risk. Give someone the role of asking naïve or difficult questions during risk workshops: “Why do we always do it this way? Why can’t we try something else? What if...?”
- **Use independent audits as a sense-check.** Bringing in an outsider to review the risk process and its outputs can reveal established or habitual tendencies to pessimism or optimism. An independent expert can suggest alternative ways of thinking or acting which might provide important new insights.
- **Monitor performance.** Comparing what actually happens with what was predicted can indicate whether we are being too negative or too hopeful. This can allow corrective action to be taken to adjust for sources of bias arising from either pessimism or optimism.
- **Manage risk attitudes.** Individuals and groups should learn to understand their risk attitudes and be able to modify them if necessary. Emotional literacy offers a range of helpful techniques which can be used to support proactive management of risk attitude, helping us to counter pessimism or optimism and choose the appropriate risk attitude which will support the achievement of our objectives.

It is easy to categorise ourselves or other people as pessimists or optimists, and allow ourselves to be forced into adopting inappropriate attitudes to risk. Instead we should recognise the bias that these mindsets can produce, and we should aim to be realistic in our assessment of the true risk exposure that we face. Only then will we be able to manage risks effectively.