

What drives risk attitudes?

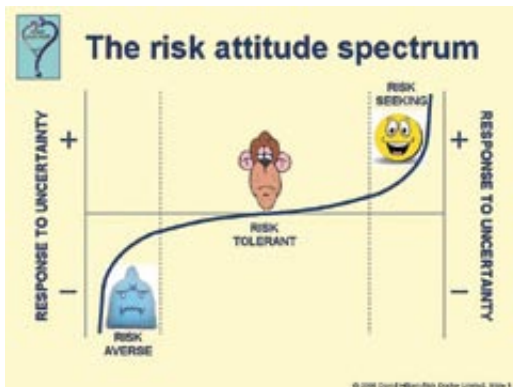
By David Hillson

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.

One of the biggest influences over the risk process is the risk attitudes which people adopt. These affect every aspect of the risk process, even if they are unaware of it. Understanding and managing these risk attitudes would significantly increase risk management effectiveness – so what are they and what affects them?

One simple definition of 'risk' is 'uncertainty that matters', and it is only possible to define a risk in relation to something specific, usually an objective of some kind. A person's view of risk is also affected by their perception of such things as the likelihood of the risk occurring or the impact if it were to happen. Similarly 'attitude' is 'a chosen response to a given situation', and it, too, is related to a specific situation and affected by perception. Combining the two definitions of 'risk' and 'attitude' allows us to build a working definition of 'risk attitude': 'a chosen response to uncertainty that matters, influenced by perception'.

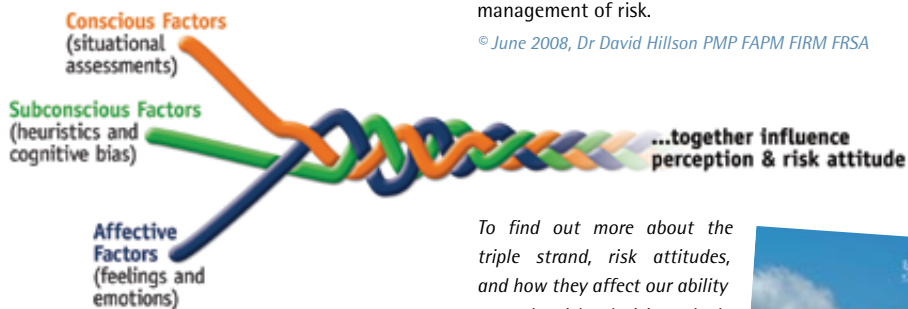
Risk attitudes exist on a spectrum from risk-averse (uncomfortable with uncertainty), through risk-tolerant (no strong response), to risk-seeking (welcoming uncertainty). They are active at individual, group, corporate and national levels, and they need to be understood so that their influence on the risk process can be managed effectively.



The risk attitude spectrum

If we want to understand risk attitudes we need to be clear about the role of perception in shaping them. I have researched this topic with my

colleague Ruth Murray-Webster and discovered three major types of influence on the perception of risk, which we call the 'triple strand'. This is made up of conscious factors, subconscious factors, and affective factors. While the three parts of the triple strand overlap, and interact in complex ways, it is helpful to tease out each of the three elements so that they can be examined and understood.



The triple strand

Conscious factors: These are the visible and measurable characteristics of a particular risky situation, based on our rational assessment. We also take account of situational factors such as whether we have done anything similar before (familiarity), the degree to which we have control of the situation (manageability), or how soon the situation is expected to affect us (proximity).

Subconscious factors: These include heuristics and other sources of cognitive bias. Heuristics are mental short cuts based on our previous experience. Some heuristics help us to reach an appropriate position quickly, while others can be misleading. Unfortunately, because heuristics are subconscious, their influence is often hidden, and they can be a significant source of bias. Common heuristics include memory of significant events (availability), or the conviction that we already know the right answer (confirmation trap).

Affective factors: These are gut-level visceral feelings and emotions which tend to rise up automatically or instinctively in a situation and influence how we react. Fear, excitement or attraction can lead us to adopt risk attitudes that a more rational assessment might not consider.

The three strands of influences interact together to form a complex web of factors which affect our perception in two important ways:

how we perceive a particular risky situation, and our perception of the right way to respond to it.

By appreciating how the triple-strand factors drive our perception of risky situations, we will understand better why we adopt different risk attitudes. This will help us to manage our attitudes to risk proactively so that we make good decisions, select appropriate responses, and improve our management of risk.

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To find out more about the triple strand, risk attitudes, and how they affect our ability to make risky decisions, look for the new book by Ruth Murray-Webster and David Hillson, 'Managing Group Risk Attitude', published this month by Gower (ISBN 978-0-566-08787-5), or visit www.risk-attitude.com.



About the author

Dr David Hillson, PMP, FAPM, FIRM, is an international risk management consultant, and Director of Risk Doctor & Partners (www.risk-doctor.com). He is a popular conference speaker and award-winning author on risk. He is recognised internationally as a leading thinker and practitioner in the risk field, and has made several innovative contributions to improving risk management. David is an active member of the global Project Management Institute (PMI) and received the PMI Distinguished Contribution Award for his work in developing risk management over many years. He is also a Fellow of the UK Association for Project Management (APM) and a Fellow of the UK Institute of Risk Management (IRM).



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