



## UNDERSTANDING AND MANAGING RISK ATTITUDE

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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. Research and experience both indicate that the attitude of individuals and organisations has a significant influence on whether risk management delivers what it promises. 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 cure. 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.

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## 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. Various national and international standards and guidelines exist which mention risk, but there are many different definitions and underlying concepts in these documents. 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.

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 the 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 uncertainty that could have a positive or negative effect on one or more objectives*”.

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 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.

- 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.
- It is possible for extremes of attitude to make an aircraft unstable (for example stall or spin), resulting in loss of control and potentially catastrophic consequences. Similarly a sense of balance is required for individuals and groups if their attitudes are not to lead to undesired outcomes.
- Different extremes of attitude require different types of response. For example if an aircraft finds itself in a stall the correct response is to do nothing, allowing the aircraft to self-correct. In the case of spin however emergency action is required to bring the aircraft under control. In the same way some extremes of human attitude are self-correcting where others require aggressive intervention.
- 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 – which is the basis of emotional literacy.

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 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*”.

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. 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.

Although attitude manifests itself through behaviour, there are other drivers of behaviour which can displace the chosen or preferred attitude. The extent to which this occurs depends on the perception of the situation towards which the attitude is being directed. This is best understood by considering the two extremes, where the situation is perceived as good or neutral, and where it is seen as bad.

- **Favourable or neutral situation.** When a situation or environment is perceived as positive or benign, behaviour is driven largely by attitude. In this case the attitudinal choice of the individual or group is the key determinant of behaviour. For example when faced with an existing client who is open to the possibility of taking on new business, an organisation may decide to pursue the opportunity or to ignore it (“take it or leave it”). This choice is not mandated by the situation, and the organisation is free to select its preferred response. People who adopt this attitude consistently may be labelled as optimists, since they tend to view all situations as equally positive. This helps them to retain control of their behaviour since the key driver when the environment is positive is the chosen attitude, allowing a proactive response to the prevailing situation.
- **Unfavourable or hostile situation.** When an individual or group perceives a situation or environment as negative, the resulting behaviour is largely determined by a direct response to the situation, and attitude plays a smaller role. For example in a setting where one’s personal safety is threatened, the “fight or flight or freeze” response is adopted almost unthinkingly, regardless of the prevailing attitude of the individual. Indeed a negative situation may force behaviour which is contrary to that preferred by attitude, leading to a more reactive stance. Individuals who regularly adopt reactive behaviour driven by a perception that the environment is negative may be termed pessimists, and in extreme cases this may even lead to paranoia.

Although the responses to positive and negative situations suggest at first sight that environment or situation is the prime determinant of behaviour, in fact it is how the environment is *perceived* by each person, since a situation that appears hostile to one may seem benign to another. This raises the question of what influences behaviour when the situation is *uncertain*. In this case the important driver of behaviour is whether uncertainty is perceived as favourable, neutral, unfavourable or hostile. This reaction to uncertainty is “risk attitude”, defined above as “chosen response to perception of significant uncertainty”.

One key conclusion on which researchers and practitioners are agreed is that risk attitudes exist on a spectrum. The same uncertain situation will elicit different preferred 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 (sometimes called “perceptual dissonance”) – a situation regarded as too risky by one person will be seen as acceptable by another.

## WHAT IS EMOTION?

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. All standard dictionaries offer definitions for the term “emotion”; from “disturbance of mind”, to “mental sensation or state”. The fact that a particular person feels fear is only meaningful in context. If the fear is preventing the person from pursuing a course of action that would be beneficial for them, the emotion is negative. Conversely if the fear is preventing the person from pursuing a dangerous course of action then the emotion is positive. Emotions in themselves have no absolute meaning, their significance is only important in relation to the objectives that people seek to achieve.

A useful dictionary definition states that emotions are “instinctive feelings that arise spontaneously rather than through conscious effort, and are often accompanied by physiological change.” Such instinctive feelings are not reasoned or logical, but neither do individuals need to be victims of them. Whilst psychologists may differentiate between emotions, feelings, moods, temperament and other affective states, here the term “emotion” is used to mean all of those instinctive feelings that are held and expressed. 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.

## WHAT IS EMOTIONAL INTELLIGENCE?

Although the term “emotional intelligence” has only been part of common parlance in the last decade, the concept, as with most things, is not new.

In 1983, the psychologist Howard Gardner demonstrated that human beings display intelligence in a number of different ways, from the classically understood linguistic and logical-mathematical types of intelligence, through intra-personal and inter-personal intelligences to areas such as musical intelligence. The classic view of intelligence (measured by the Intelligence Quotient (IQ) and focused on the use of logical reasoning, rational analysis and spatial orientation to solve problems) was not the whole story.

Accordingly when Peter Salovey and John Mayer in 1989 formally introduced the term “emotional intelligence”, it made real sense to people who intuitively already knew that IQ was not the only determinant of success in a business context. Daniel Goleman popularised the term, and there is now a wealth of literature dedicated to helping individuals understand how they can become more emotionally intelligent and thus be more successful in attaining their goals. The key questions are “How does natural, intuitive behaviour affect actions?” and “How can individuals acknowledge it (at least) and continually and intentionally develop it (if they choose to)?”

## EMOTIONAL INTELLIGENCE AND RISK MANAGEMENT

It is inherent in the nature of risk management for it to be 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. Risk attitudes exist at individual and group levels, and these can be assessed and described with some degree of accuracy. Sources of bias can also be diagnosed, exposing their influence on the risk process.

Where the risk attitude adopted is not conducive to effective risk management, action is required to modify attitude. Emotional Intelligence provides a means by which attitudinal change can be promoted and managed, for both individuals and groups.

Risk has been defined as *uncertainty that matters*, including both uncertainties which pose a threat or uncertainties that present opportunities. In a similar way, Emotional Intelligence in the context of risk management is about *emotions that matter*. This recognises that emotions can assist people in managing risk, or they can be a hindrance. All elements of the risk process are affected by the Emotional Intelligence of the stakeholders, at both individual and group levels, including:

- Identification of risks
- Assessment of probability of the risk occurring
- Assessment of potential impact should the risk occur
- Deciding how to respond to assessed risks

The importance of being able to recognise, understand, express and manage emotions as a means of controlling behaviour has been recognised for centuries as expressed by philosophers, psychologists and educators alike. In recent times, writers have popularised the fact that success in both a personal and business context requires emotional as well as “traditional” intelligence. A significant body of evidence also exists to demonstrate that Emotional Intelligence can be developed where there is a desire to do so.

Decision-making is an activity that consumes a large percentage of time for many individuals and groups particularly in the workplace, and this is definitely the case for people involved in the discipline and profession of risk management. However decision-making in uncertain situations is affected by “risk attitude”, influenced by numerous sources of explicit and implicit bias. One of most the significant contributors to risk attitude is the emotional state of the individual or group involved and therefore development of Emotional Intelligence will have a direct effect on the efficacy of the risk management process.

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