



APPROPRIATE RISK-TAKING: TEN KEY CONCEPTS

© August 2008, Dr David Hillson PMP HonFAPM

david@risk-doctor.com

Risk psychology is a complex area, with a lot of academic research and many textbooks. However there is not much practical advice available for people who are interested in making good decisions in their personal lives and at work. Our long-standing collaboration with Ruth Murray-Webster has resulted in some useful and practical insights into the area of risk attitudes (see www.risk-attitude.com), and we have distilled our thinking into **ten key concepts**. These start from our basic understanding of the nature and characteristics of risk, and move through the main conclusions from our work on applied emotional literacy, to a final statement that explains why it is important to understand and manage risk attitudes if we want to **promote appropriate risk-taking**. The first five concepts (1-5) cover the basic fundamentals of risk management, and the second five concepts (6-10) move into the area of risk attitudes.

1. *Risk is “uncertainty that matters”* – but different things matter to different people to a different extent in different circumstances.
2. *Risk includes both downside (threats) and upside (opportunities)* – both types of risk need to be addressed proactively, in order to minimise threats and maximise opportunities.
3. *“Zero risk” is unachievable and undesirable* – all aspects of life (including business) involve risk, so some degree of risk-taking is inevitable, but we should only take appropriate risks in relation to the level of return we expect or require.
4. *Risk has two key dimensions* – uncertainty can be expressed as “probability” or “frequency”, and how much it matters can be called “impact” or “consequence”.
5. *Risk management requires understanding of both dimensions* – if the uncertain event is very unlikely or it would have negligible effect, it requires less attention.
6. *Risk management is affected by perception* – answers to the questions “How uncertain is it?” and “How much does it matter?” are subjective.
7. *Perception is affected by many factors* – including conscious rational assessment, subconscious sources of bias, and affective inner emotions (the “triple strand” of influences).
8. *Risk attitude is “a chosen response to uncertainty that matters, driven by perception”* – individuals and groups adopt risk attitudes either subconsciously or consciously, within a spectrum ranging from risk-averse to risk-seeking.
9. *Risk attitude can be managed consciously* – emotionally-literate individuals and groups respond instead of reacting, understanding which risk attitude best meets the specific needs of the situation, and adopting the appropriate risk attitude.
10. *Managed risk attitudes support effective risk management by promoting appropriate risk-taking*. By managing risk attitudes proactively, individuals and groups can maximise the effectiveness of the way they manage risk, allowing them to take the appropriate amount of risk compared to the reward they are seeking.

Following these principles will ensure that we take the right risks for the right reasons, and will help us to make good decisions and achieve our objectives in a risky environment.