Lucidus
Consulting

Lucid Thought

Ruth Murray-Webster & Peter Simon

LUCID 77 THOUGHT

What shapes our choices in risky and important situations?

“So gentlemen, we all think the same… an unsinkable ship is a guaranteed winner!”

In the last Lucid Thought we addressed the question “how hungry are you for risk?” and discussed how risk appetite applies to projects, and how this is different, albeit related, to risk attitude.

Put simply, risk appetite applies to the work - it represents the tolerance for overall or aggregate risk on the project. Defining risk thresholds helps to prioritise individual risks, and also helps teams to take a view on the overall ‘riskiness’ of the work.

In contrast, risk attitude does not apply to the project - it applies to individual people, or to decision-making groups - it refers to the choice of how to deal with a risk based on the level of comfort with the uncertainty. A risk-averse attitude seeks to reduce uncertainty and risk and would be motivated to actively manage risks rather than leave them to chance. A risk-seeking attitude is comfortable with uncertainty and risk and would be happy to leave things to chance.

You might be thinking - well if the project’s appetite for risk is low, it would be really useful if the risk attitude of the people in the team was risk-averse - that way the whole team would be motivated to act to reduce risk. That’s true - but it’s not how it works in practice. Why?

The factors that influence risk attitude are many and varied and tend to reflect personal objectives and motivations, not necessarily project objectives. If risk attitudes happen, by chance, to align with the project’s risk appetite that is fantastic. If they’re not, then that’s a problem that needs to be managed.

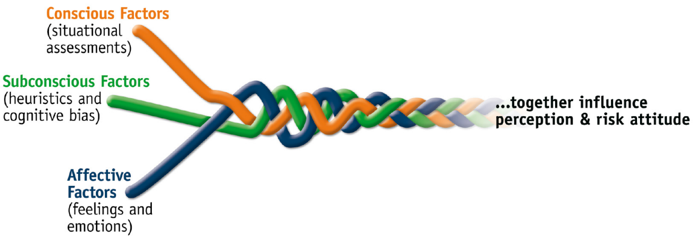
So what are the factors that influence risk attitude? This is a subject that Ruth Murray-Webster and David Hillson have written about extensively, in their books published by Gower **(Understanding and Managing Risk Attitude, 2nd edition, 2007 and Managing Group Risk Attitude, 2008)** and in various conference proceedings.

The facts are that there are so many things that do influence our attitudes to risks, because many things influence our perception of whether a situation is risky or not and to what extent.

Some of the factors are situational and can be rationally analysed - things like past experience, or closeness of the risk in time. Others are based on feelings and emotions - what we might call affective factors such as fear, worry or joy. Situational and affective factors are obviously personal - each individual will be influenced differently.

Research shows that a third set of influences work subconsciously and tend to influence people similarly. These subconscious influences are usually referred to as cognitive biases (factors that skew how we perceive and think about things). Others are mental short cuts (heuristics) that allow us to process information quickly, but sometimes erroneously. Many people working within projects will have heard people speak of optimism bias - this is an example of a cognitive bias that seems to have a systematic effect on our ability to estimate under uncertainty. You may also have heard of the availability heuristic (most recent information is most memorable), or the anchoring heuristic (where we can't see past the number first suggested to us).

Ruth and David talk about this myriad of influences in terms of the Triple Strand, pictured below, reproduced from Figure 4.1 in **Managing Group Risk Attitude, 2008.**



The significance of the Triple Strand is that although there are many factors that influence our perception of a risky situation, at the point of perception they are all tightly intertwined and it is difficult to unravel them. Ruth and David's argument is that if people are to understand their risk attitudes in making particularly risky and important decisions, so they can manage them, they need to be able to unpick the strands and get to the root causes of the influences on perception.

If the triple strand applies to individuals, does it also apply to decision-making groups, such as investment committees, steering groups, project boards, etc? We would argue yes. You have probably all heard of group cognitive biases such as Groupthink (Janis, 1971). In organisational life, the term groupthink is used widely, almost as part of our everyday understanding of the potential for group dynamics to influence decision-making. It tends to be used loosely to describe situations when decision-makers feel there is 'safety in numbers' and where groups end up making a decision that none of the individual members of the group would have made alone. Irving Janis, the social psychologist who pioneered the work on this phenomenon, is clear that groups of people working together are subject to powerful social pressures to conform with the norms of the particular group. But is social conformity and group morale more important than critical thinking when key decisions are to be made? He would argue so.

So in decision-making groups there is an even more complex cocktail of influences - the ones that affect each individual member of the group, and then collective biases that are a feature of the group dynamics.

Does this matter in project management? Consider this situation:

A group leader is presented with the challenge of advising the senior management group whether to invest in an expensive upgrade to facilities. The business case for the upgrade has been prepared and it is marginally acceptable in terms of its return on investment assuming that the productivity of the group will increase as a direct result of the new kit, and that productivity gains could not be achieved by other means. The group leader knows deep down that productivity gains could be achieved by other means, but that would involve making some unpopular decisions to change working practices. Previous attempts to implement new ways of working have been

unpopular and a decision that would take a renewed attempt in this direction is one that the group leader is fearful of making, but would never disclose. The group leader also perceives that it would be exciting and a key career opportunity to lead the project to purchase and install the new kit. New equipment would provide the 'excuse' for tackling some of the underlying group issues and feels altogether more comfortable and manageable. The group leader is aware of other companies that have upgraded their facilities in the way he is suggesting - in fact he/she has a close friend who has experience that can be drawn upon. The numbers in the business case are based on this experience from another location. As far as the group leader is concerned, the upgrade should go ahead. But would the advice 'upwards' be appropriate if the effects of the triple strand of influences on perception were left unchallenged?

The reality is that human judgement is shaped by a complex tangle of influences. The message of the triple strand is two-fold:

1. Unchallenged, the tightly inter-twined strands appear as one and cannot be distinguished;
2. With intent, awareness and confidence, the triple strand can be un-picked when the situation is important enough to warrant good information and a quality decision.

How can this be done? We'll cover that in a later Lucid Thought. Watch this space!

To read more Lucid Thoughts from Lucidus Consulting, please visit our website **www.lucidusconsulting.com**

90 Long Acre | Covent Garden | London WC2E 9RZ | Email: contact@lucidusconsulting.com | www.lucidusconsulting.com

Telephone: London 0207 060 2196 · Manchester 0161 939 0189 · West Yorkshire 01484 818560 | Fax: 0207 060 2198