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... offering some powerful insights into how to significantly reduce  
bias in risk-related business strategies. ... Essential reading for  
anyone tasked with the management of risk.'*

David Hutchins, MD, DHi Limited.

# Understanding and Managing **Risk Attitude**

SECOND EDITION

**David Hillson and Ruth Murray-Webster**

# *Understanding and Managing Risk Attitude*

*Second Edition*

DAVID HILLSON and  
RUTH MURRAY-WEBSTER

GOWER

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## **ATTITUDE**

Charles Swindoll  
(1934–)

The longer I live, the more I realise the impact of attitude on life. Attitude, to me, is more important than facts. It is more important than the past, than education, than money, than circumstances, than failures, than successes, than what other people think or say or do. It is more important than appearance, giftedness or skills. It will make or break a company or a home. The remarkable thing is we have a choice every day regarding the attitude we will embrace for that day. We cannot change our past. We cannot change the fact that people will act in a certain way. We cannot change the inevitable. The only thing we can do is play on the one string we have, and that is our attitude. I am convinced that life is 10% what happens to me and 90% how I react to it. And so it is with you – we are in charge of our attitudes.

# Foreword

We all live in a world full of risk, and on a daily basis we can either choose to take a decision where the outcome is uncertain, or choose not to. Faced with innumerable risks, most people have developed habits and strategies for dealing with the uncertainty in such a way that their lives ‘free-flow’ most of the time. It is only in the presence of an extraordinary risk that people are usually conscious of the need to make a choice.

The management of these extraordinary, uncertain situations has become a discipline in its own right over the past decades, particularly in a business context, but increasingly also in a social setting. As a result many aspects of risk management are well defined, tried, tested and trusted – though not all. This book addresses one facet of risk management that is not well understood, namely risk attitudes.

Our motivation in writing the first edition in 2005 was to shed light on an area that on the one hand is seen as rational and logical, but on the other involves the deepest workings of the human brain. We aimed to share with our readers our fascination with the human influence on decision-making in risky situations.

Our intention was to provide a book that is informative and thought-provoking, yet practical in nature; feedback suggests that were successful in that regard.

Since publication of the first edition our assumption has been confirmed that many readers want to learn how to understand and manage risk attitudes so that they can apply the learning to risky business situations, for example those associated with safety risk, project and programme risk, financial risk and so on. The feedback we have gained confirms that the book certainly helps in these areas.

Even more importantly though, our hope, then and now, is that business readers will engage with the text at a personal level and learn more about understanding and managing their own risk attitudes in life situations outside the workplace.

We know that those readers who apply what we have written to their professional lives benefit through deliberately understanding and managing their risk attitudes. We also know that those who have reflected on the relevance of the subject to all aspects of their lives and applied the guidance there have benefited greatly.

Working to *understand* risk attitudes is a worthwhile exercise on its own, but it is infinitely more valuable when combined with practical ways to *manage* those risk

attitudes so that they support achievement of objectives. We know the insights contained within this book work in practice – we hope that readers will be motivated to prove that for themselves.

DAVID HILLSON  
RUTH MURRAY-WEBSTER

# *Preface*

Risk management is recognized as an essential contributor to business and project success, since it focuses on addressing uncertainties in a proactive manner in order to minimize threats, maximize opportunities and optimize 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 materialize 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 organizations 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 lead to adoption of 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, allowing sources of bias to be diagnosed, exposing their influence on the risk process.

But diagnosis is different from cure. Where the risk attitude currently adopted by an individual or group is not conducive to effective risk management, action may be required to modify that attitude. Recent advances in the field of emotional intelligence and emotional literacy provide a means by which attitudinal change can be promoted and managed, for both individuals and organizations.

This book brings together leading-edge thinking on risk attitudes and emotional literacy to guide those wishing to move beyond mere implementation of a risk process and towards a people-centred approach for risk management. It offers a unique

framework for understanding and managing those human elements which are essential for effective risk management. The combination generates powerful insights into how the application of emotional literacy to risk psychology can deliver significant benefits to every business seeking to manage uncertainty and its effects.

Following the thesis offered here requires no prior knowledge of emotional literacy, since this is a relatively new field, neither is understanding of risk attitudes or psychology assumed. However, the reader should be familiar with the purpose and basic processes of risk management – such knowledge is readily available and there are many books already published on this subject.

Instead, the main aim of this book is to provide a thought-provoking but usable reference for risk practitioners, enabling them to consider and manage the impacts of the human dimension on risk management. This will allow risk professionals to diagnose practically real situations and develop strategies for good practice, as well as minimising the impact of situations where current risk attitudes may be counter-productive.

Anyone involved with implementing risk management will benefit from this book, including risk practitioners, senior managers and directors responsible for corporate governance, project managers and their teams. It will also be of interest to human resource professionals and others interested in organizational or behavioural psychology, as well as students, researchers and practitioners in the field of emotional literacy, although the approach is pragmatic rather than theoretical or research-based. Indeed anyone whose interests include both the effective management of risk and the complexity of human behaviour will find much of value here, covering each of these two fascinating topics, but more particularly dealing with their interaction. If the goal is both to understand and to manage risk attitude, this book points the way.

DAVID HILLSON  
RUTH MURRAY-WEBSTER



# Acknowledgements

‘Two are better than one because they have a good reward for their toil  
... A threefold cord is not quickly broken’: *King Solomon (970–928 BC)*.

When we set out to write the first edition of this book together it was based on mutual respect and appreciation, both professional and personal. When the task was completed we were pleased to acknowledge the privilege of working with each other (and we were still friends!). Each learned from the other’s area of expertise, producing a natural synergy where the whole book was greater than the sum of our individual contributions. More interesting for the topic was our experience as two individuals of understanding our risk attitudes better and developing improved emotional literacy through the writing process. And as a minimal working group of two, we demonstrated that the principles outlined in this book work in practice.

Many people contributed to our thinking as reflected here – too many to name individually. We remain grateful to the many whose own experience added to our understanding of how to manage risk attitudes using the techniques of emotional literacy. Some have shown us how it should be done, and we have learned how not to do it from others. Where specific ideas have been derived from elsewhere we have attempted to give full acknowledgement, but we retain responsibility (and apologise) for any errors or oversights in our work.

Few situations contain more risk or demand more emotional literacy than the home, and our families have continued to teach us valuable lessons with broader application than the business environment. Our first edition would not have been written without their faithful support and encouragement.

Now we come to a second edition we have more reasons to be grateful. Firstly we thank the many people who read the first edition and provided valuable comment and feedback. Their input has shaped the changes in this edition, as well as challenging us to continue developing our ideas and writing. Secondly we are grateful to professional colleagues whose encouragement and support has provided the stimulus for us to keep going. We thank our publisher Jonathan Norman and his team at Gower for keeping faith with us and giving us opportunities to share our ideas more widely. And lastly, we acknowledge the strategic support of key people who have demonstrated their belief in our message by introducing us to unexpected avenues where we might make a difference. Baroness Julia Neuberger has been a particular encouragement in this respect.

We remain fascinated by the twin challenges of understanding uncertainty and understanding people, and we hope that the fruit of our labours continues to shed light on both.

DAVID HILLSON  
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Petersfield & Meltham, UK  
2007

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PART 1

# *The Problem*



