Understanding and Managing Risk Attitude
Second Edition

DAVID HILLSON and RUTH MURRAY-WEBSTER
Contents

List of Figures  ix
List of Tables  xi
Foreword  xv
Preface  xvii
Acknowledgements  xix

PART 1: THE PROBLEM  1
1 Risk Management Status Quo – Efficient but not Effective?  3
   The risk environment  3
   What is risk?  4
   What is attitude?  6
   Risk management in today’s business  9
   Is risk management effective?  11
   Purpose and structure of this book  13

2 The Importance of Human Factors in Risk Management  15
   Why human factors matter to risk management  17
   Risk management and the individual  17
   Risk management and the group  26
   Diagnosis is not the same as treatment  34

PART 2: UNDERSTANDING RISK ATTITUDES  37
3 General Principles of Risk Attitudes  39
   The risk attitude spectrum  39
   Basic risk attitudes  43
   Situational influences on preferred risk attitude  46
   Internal influences on preferred risk attitude  48
   Conclusion and summary  49

4 Individual Risk Attitudes and Heuristics  51
   Covert factors influencing individual risk attitude  51
   The availability heuristic  53
   The representativeness heuristic  55
5 Group Risk Attitudes and Heuristics
Understanding group risk culture
The groupthink heuristic
The Moses Factor
The cultural conformity heuristic
The risky shift and cautious shift heuristics
The influence of national culture
Modifying group risk culture

PART 3: UNDERSTANDING EMOTIONAL LITERACY

6 Emotion – Definition and Relevance
Emotion in the workplace
The history of emotional intelligence
From emotional intelligence to emotional literacy
Emotional literacy and risk management
Conclusion

7 Emotional Literacy for Individuals
Transactional Analysis and emotional literacy
Open loop system
A mind-set of choice
Component parts of individual emotional literacy
Stages of individual emotional development

8 Emotional Literacy for Groups
Component parts of group emotional literacy
The role of leadership
Going forward

PART 4: IMPLEMENTATION ISSUES

9 Applying Emotional Literacy to Risk Attitudes
Emotionally literate management of risk attitudes
Making the change
Summary and first steps
10 Final Thoughts and the Way Ahead
Simple but difficult 149
Difficulties in understanding risk attitude 151
Difficulties in managing risk attitude 153
Too hard? 154
Future developments 155
Conclusion 157

Appendix: Emotional Intelligence/Literacy Tools 159

Bibliography and Further Reading 165

Index 177
Index

11 September 2001, 54
alignment 133
ambiguity 4, 112
Antidote 92
Aristotle 114
assertiveness 117, 130, 135
assumptions 55
attitude
  definition 6, 39, 153
  link with objectives 7
  attuning 133
Bandler, Richard 136
BarOn Emotional Quotient Inventory (EQ-I) 162
Bartels, Andreas 60
Bay of Pigs 68
behaviour 39, 42, 65, 74, 102, 113, 126, 141
Belbin Team Roles 27
Bennis, Warren 133
Berne, Eric 91, 99
bias 13, 52, 93
blame 63, 101
Bohr, Niels 3
brain 102
  archipallium 103
  limbic system 103
  neo-cortex 102
  neopallium 103
  open loop 102, 125
  palleomammalian 103
Chaucer, Geoffrey 60
Chernis, Cary 135
choice 104, 144, 152
common sense 150
communication 135
conflict handling 117
Conflict Resolution Network of Australia 117
consequences 5, 39
constructive criticism 135
constructive discontent 119
contingency 31, 59
Covey, Steven 121, 133
Critical Sources of Failure 150, 155
Critical Success Factors 12, 15, 35, 141, 150, 155
culture
  changes 82
  definition 29, 66
  monoculture 80
  multiculturalism 80
  subculture 80
cycle
  vicious, 74, 132
  virtuous, 74, 132
delayed gratification 120
Descartes, Rene 87–88
disclosure 71, 116, 135
dynamic listening 135
effectiveness 11
efficiency 11
Einstein, Albert 153, 154
emotion
  definition 85
  development 92
  honesty 115, 130
  in the workplace 86–7
  influencing perception 93
  resilience 120, 132
  self-control 115
  six basic 87
Emotional Competency Inventory (ECI) 161
emotional intelligence 156
  Emotional Quotient (EQ) 90, 102
  history, 86–90
Emotional Intelligence Individual Diagnostic Questionnaire 160
emotional literacy 91, 156
and risk management 93–7
applied to risk attitude 145
component parts (group) 126–32
component parts (individual) 105–21
definition 91, 93
development 121–3
diagnostic tools 121, 156, 159–64
group 145
individual 144
Emotional Smarts Questionnaire 164
empathy 106
environment 46
EQ Map Questionnaire 163
financial objectives 32
flexibility 113
Freud, Sigmund 88
Frost, Robert 99
Gardner, Howard 89
globalization 80
goal directedness 115
Goleman, Daniel 90, 103, 123
Grinder, John 136
group 26
development 128
group dynamics 73, 74, 152
organization 29
risk-balanced team 27
Hall, Edward 131
health 121
heuristics 51, 93, 142, 147, 152
affect 56, 107
anchoring and adjustment 52, 57–60
availability 52, 53–5
cautious shift 67, 73, 74
confirmation trap 52, 60–62
corollary syndrome 61
cultural conformity 67, 71–2, 128
definition 48
group dynamics 67
groupthink 67, 68–9, 128
lure of choice 112
Moses Factor 67, 69–71
relationships between 67
representativeness 52, 55–7
risky shift 67, 73
Hofstede, Geert 75
criticisms of 78–81
human factors 13, 15–17, 34, 39, 141, 149, 150
definition 16
group 16
individual 16
organizational 16
humour 136
'I' statement 117
impulse control 120, 131
Ingham, Harry 117–18
intelligence
intelligence quotient (IQ) 89, 102
seven intelligences 89
intentionality 120, 131
interdependence 120–21
investment strategy 32
Janis, Irving 68
Johari Window 116–17
Johnson, Samuel 115
Kahneman, Daniel 51
Korzybski, Alfred 106
leadership 132–7

cultural fluency 134
group motivation 133
language 136
meeting 'process norms' 135
meetings 135
objective-setting 133
power 134
Lopes, Lola 106
Luft, Joseph 117
MacLean, Paul 102
management reserve 31
Margerison-McCann Team Management Wheel 27
INDEX

Mayer, John 89
Mencken, Henry Louis 153
mergers and acquisitions 75
Myers-Briggs Type Indicator 27

national culture 71, 75–81
individualism/collectivism 75
masculinity/femininity 75
PDI-UAI correlation 78
power distance 75
power distance index (PDI) 76, 77, 130
time orientation 76
uncertainty avoidance 75
uncertainty avoidance index (UAI) 76, 77
Neuro-Linguistic Programming (NLP) 136

optimism 40, 118, 148
Orbach, Susie 92

perception 22, 39–42, 51, 142, 147, 151
perceptual block 62
perceptual dissonance 43
personal characteristics 8
personal openness 115, 130
pessimism 41, 54
PESTLE analysis 129
physical quotient (PQ) 102
Plato 3
Pooley, Colin 55
Popper, Karl
Falsifiability Principle 60
hypothesis-deductive method 60
portfolio management 33
power
coercive 70
expert 70
leadership use of 134–5
legitimate 70
personal power 111
referent 70
reward 70
sources of 70
relative regard 109, 130

risk
definition 5, 39, 153
link with objectives 5
threat and opportunity 6
types 10–11
risk attitude
balance 28
benefits of managing 155
corporate 16, 29, 65
default 142
definition 39, 153
diagnostic tools 153, 156
group 16
individual 16
models 156
organizational 66
perception 72, 73
preferred 43
risk-addicted 44
risk-averse 19, 20–21, 30, 44
risk-neutral 44
risk-paranoid 44
risk-seeking 19, 20–21, 30, 44, 45
risk-tolerant 44–5
situational 151
spectrum 19, 39, 42, 43, 66, 73, 141, 151, 152
strategic audit 82
variable 142
risk culture 12, 66
corporate 29, 81
drivers 29
prevailing 68, 71
risk management
benefits 35
consultancies 10
effectiveness 34
infrastructure 9
professional bodies 9, 14, 149
qualifications 9–10
resourcing 33
standards 4–6, 149
tools 10
risk management process 18
assessment 18
identification 18, 20, 22–3
implementation 19, 21, 25–6
initiation 18, 20, 22
process management 19, 21, 26
qualitative assessment 20, 23–5
quantitative analysis 20, 24
response planning 19, 21, 25
risk perception 6
risk psychology 156
risk thresholds 31

Salovey, Peter 89
self-awareness 28, 81, 106, 144, 146, 154
and risk management 106
group 127, 129, 145
organizational 106, 129
self-confidence 111
self-esteem 111
Sharp, Peter 93
situational influences 46–48, 93
manageability 46
personal propinquity 47
temporal proximity 47
Slovic, Paul 51, 56, 107
Socrates 87
Spony, Gilles 81
stakeholders 31, 129
Steiner, Claude 91, 122
stereotypes 55, 80
national 81

stress tolerance 120, 132
team 27–8, 125, 152
three-point estimate 58
Tice, Lou 133
 Transactional Analysis 91, 99–101, 118
life positions 100–101, 104, 113
triple strand of influences 93
Triune Brain 102–4, 118, 133
Trompenaars, Fons 80
trust 108, 117, 147
self-trust 108
trust radius 108
trustworthiness 108
Tuckman, Bruce 128
Tversky, Amos 51
uncertainty 3, 5
aleatoric 4
epistemic 4
variability 4
aleatoric 112
verbal barrier 122, 131
Wrigley, William 120
Zeki, Semir 60