



Dispel some common misconceptions about risk

We spontaneously react to risk in a largely irrational manner. Many studies have demonstrated the profound influence of our subconscious minds on the way we deal with danger. Indeed, our behavior is the result of a whole set of synaptic, chemical, psychological and analytical reactions that are largely outside of the realm of our conscious awareness. Although these mechanisms are generally pretty effective in protecting us from harm, the author of *How Risky Is It, Really?* points out that they also often encourage us to exaggerate

People often confuse fear with actual risk.

risks, and may even severely cloud our decision-making process. For example, in the months following September 11, 2001, terrorist attacks, many American decided to drive long distances to reach their destination, forgetting in the process that driving is much more dangerous than flying – a fact sadly reflected in traffic accident statistics for that period...

In short, companies, like people, need to be aware of common perception biases to manage risk more effectively and avoid making unfortunate decisions that are either too cautious or too reckless. Indeed, people are often driven to an excessive conservatism by a combination of three phenomena:

Instinctive avoidance of risk

Our bodies react instinctively to immediate danger, without stopping to ask what we think about it. This primal response enabled our ancestors to survive in a hostile world. Imagine you're taking a stroll in the woods, and you suddenly see a long, dark shape slithering at your feet. You recoil instantly, well before your mind has a chance to form the thought: "Is that a snake?" In much the same way, if you suspect that your boss or an important customer will scream and yell if they hear bad news, you will instinctively try to hide the news to avoid being attacked. **So, how can this irrational avoidance reflex be managed and overcome?**

Mental shortcuts that encourage conservatism

The volume of information gathered through our senses is often too great to be analyzed in a reasonable amount of

time. Our brains thus provide helpful shortcuts to help us make decisions rapidly based on selected pieces of information. However, these shortcuts are based on our past experience, especially experiences that have made a negative impression. For instance, a manager who has experienced a resounding failure in an emerging market might establish a simplified rule, such as "stay clear of politically unstable countries." **So how can one avoid the tendency to oversimplify?**

Emotions that increase our wariness

Strong feelings are often triggered when we perceive danger, preventing us from thinking clearly. People may thus take disproportionate risks when they get excited about something; however, particularly in large organizations, they are more likely to be driven to an excess of caution by fear for their career or fear that they may jeopardize an important professional relationship. **So how can one distinguish between subjective emotion and objective risk?**

Five classic mistakes that drive people to overestimate risk:

- 1 Confusing uncertainty with risk
- 2 Fearing loss and losing sight of potential gain
- 3 Letting others influence you
- 4 Overestimating risk, for lack of trust
- 5 Being influenced by personal involvement

1st common mistake

Confusing uncertainty with risk

Ask yourself

- How **probable** is the scenario you fear? Do other people see the possible outcome differently?
- Can you imagine **scenarios that fall between the best and worst case**? Are these scenarios acceptable to you?
- How **serious** would the consequences be in the worst possible case? Is there a way to alleviate the consequences of a bad outcome?
- If the risk does occur, could you do **something to minimize** the consequences? Do you have indicators that would allow you to react in time? Could you take precautionary measures right away?

Whenever we are in uncertain situations, **our natural reaction is to fear the worst**. Indeed, neurologists have shown that a specific area of the brain, known as the amygdala, becomes highly active in such circumstances, as if trying to spot every possible form of danger. When a company undergoes a major transformation, for example, wild—and highly creative—rumors will often begin to circulate almost instantaneously if the leaders of the organization fail to clearly communicate their intentions. In much the same manner, contradictory instructions issued by the government, company leaders and the health authorities with regard to the Three Mile Island nuclear plant accident caused general panic. 140,000 people fled the town, although everyone agreed on at least one point,

People easily overestimate risk when they are in doubt.

namely, that there was most probably no radiation leakage!

The anxiety caused by doubt must be overcome to analyze risk objectively. Otherwise, people will naturally tend to err on the side of caution. Companies can help in a number of ways. For example, they can ask **neutral observers** to make a clear and

objective assessment of the probability and extent of risk. This will help managers avoid making decisions

based on worst-case scenarios that are very unlikely to occur. Systematic processes can also be established to gather and share intelligence in order to **detect and manage risk reliably**. The knowledge that risks will be identified rapidly reassures people and prevents them from acting based on “precautionary principles.”

"The man who insists on seeing with perfect clarity before deciding, never decides."

Henri-Frederic Amiel

2nd common mistake

Fearing loss and losing sight of potential gain

Ask yourself

- What do you have to **lose** in this situation? Do other people perceive the risk in the same way?
- What is the **probability** that the loss will occur? How reliable is this forecast?
- How **serious** are the potential consequences? Could the loss be **compensated** by a gain somewhere else?
- What do you have to **gain**? Could you do anything to maximize these gains or make them more likely?

For most individuals, the **fear of loss tends to override the desire for gain**. This has been shown time and again in many scientific experiments. For example, a group of doctors and cancer patients was asked to choose between two treatments. They were told that one of ten patients would die under treatment A, and that 90 percent would survive under treatment B. Respondents overwhelmingly chose treatment B, even though life expectancy was identical in both cases! Treatment A seemed much more risky in people's minds, simply because the prognosis was expressed negatively (potential loss). As a result, the more that people personally have to lose, the less likely they are to take a risk for the orga-

People tend to be overcautious when they want to keep something they possess.

nization. This explains why rising young stars often become rather conservative, out of fear that they will lose the position they have acquired in the company.

The best way to prevent perception biases is to **look at the entire picture** of possible consequences in uncertain situations, taking account of positive

as well as negative outcomes. A systematic approach is invaluable in this respect, because it ensures that a full analysis will be conducted

despite initial concerns. **Time is also an ally**. Our feelings—especially fear—are instinctive and our thoughts come second. Taking the time to collect more information and gather opinions allows people to calm down before coming to a decision.

3rd common mistake

Letting others influence you

Being part of a team significantly affects the way we apprehend our environment. Indeed, we tend to align ourselves with the perception of those around us. If everyone thinks the same thing, doesn't that mean they must be right? However, we very often don't understand why other people think the way they do. This is because, in order to avoid controversy, stay on good terms with others and save time, many people prefer not to express opinions that differ from what they see as the majority view.

The members of a team may thus adopt irrational attitudes toward risk.

An experiment conducted by American psychologists clearly demonstrates this phenomenon. Smoke was blown under a door in a waiting room. When people were alone in the waiting room, 75 percent sounded the alarm. However, when the smoke was observed by groups of three or more people, the alarm was sounded only 38 percent of the time. Everyone waited to see how the others would react before deciding what to do. In this case, the perceived risk was blunted by the presence of other people. This signifies that employees who would individually

Groupthink can make people lose an objective sense of risk.

tend to be courageous may hold back if they are part of a conservative group. When a group of people does not want to make a commitment, individuals will often align themselves with the conservative viewpoint rather than challenge the prevailing opinion. Indeed, many leadership committees suffer from this problem.

Teams must take active measures to avoid being insidiously influenced by this phenomenon. For example, the members of a team can be asked to express their personal opinion one by one. **Going around the table** in this

manner allows people the freedom to express divergent opinions, provided that the time is used to listen to what they have to say, rather than to systematically refute their objections. Another technique is to **appoint a devil's advocate**, responsible for disagreeing with the predominant vision in order to stimulate thinking and debate. This approach helps challenge the team's assumptions without jeopardizing unity; as the devil's advocate can suggest more daring solutions than if the individual playing the role were speaking on his or her own behalf.

Ask yourself

- Do you tend to prefer **consensus**? Are people encouraged to express their concerns or are they afraid to take risks?
- Do you need to have **approval from others** to feel successful? Could you get a risky idea approved by reassuring people about the measures taken to manage the risks?
- Do you hesitate to **contradict the opinion of the group**? Wouldn't people be grateful if you shook them awake by encouraging them to take more risks?
- How valid are the **assumptions** upon which people base their fear of risk?
- Do you regularly seek **outside opinions**? Could the composition of the group be modified to bring in fresh ideas?

Combat groupthink

Attitudes to watch

- Team members try **to avoid conflict**. To come to a quick consensus, they beat a rapid retreat if an innovative idea is criticized.
- The team is **cut off** from the rest of the company and rejects opinions that challenge its convictions. Pre-filtered information that coincides with the group's beliefs and assumptions is used to assess the situation.
- A certain amount of explicit or implicit **pressure** is exerted on team members who express divergent ideas.

Some best practices

- Encourage all team members **to express their doubts** and questions.
- Include disciplines that **expand the scope of discussion** (e.g., ask team members to make a list of the risks and opportunities they perceive).
- Use people from outside the team to help the members be more **objective** and identify opportunities more effectively.
- Make one member responsible for **challenging the assumptions** of the team.

4th common mistake

Overestimating risk, for lack of trust

Ask yourself

- Would you have reacted differently if the project had been presented by **someone else**, whom you trusted absolutely?
- Could you gather **more information** to make up your own mind about the actual risks and avoid being influenced by your negative views of those who presented it?
- Do you trust how decisions are made? Otherwise, how can the **decision-making process** be made more reliable?
- Could you take measures to feel reassured that the **consequences** in the event of an unfavorable outcome would be handled properly?

People tend to be too cautious when they feel mistrustful. A good case in point is what happened when the U.S. and Finland selected nuclear waste disposal sites. Faced with the same risks, these two populations reacted very differently. In the U.S., the site finally chosen in Nevada had to be shut down in the face of local opposition. In Finland, however, two sites competed to win the waste disposal contact! The experts point out that the explanation lies in the different level of trust in the public authorities, but even more importantly, in the process used to make the decision. By allowing those

concerned to participate in thinking far upstream, and communicating transparently, the Finnish authorities created a trustful environment that enabled people to analyze the risks objectively.

When a risk appears insurmountable, it is important to determine the **role that**

mistrust plays in this perception. People tend to overestimate risks when they don't trust those who are supposed

to manage those risks. This can also happen when people doubt the reliability of information at their disposal or are not sure whether the responsible leaders or organizations can and will protect them if something goes wrong.

A lack of trust leads to overestimating risk.

Key trust drivers

- Encourage people to participate in the **decision-making process**: a feeling of having no influence increases wariness and may prompt an exaggerated perception of potential risks.
- **Communicate** transparently: people who lack information tend to imagine the worst.
- Establish your **credibility**, for example, by planning measures to limit the impact of an unfavorable outcome.

5th common error

Being influenced by personal involvement

Ask yourself

- Are you **personally concerned** by the consequences of this decision? Are your friends, family or acquaintances concerned? Could this involvement affect your objectivity?
- Have you had **past experiences** that made such an impression that your perception might be influenced?
- Would you perceive the situation differently if **someone else** other than you were taking the risk? What would you recommend to a friend in the same situation?
- Could you discuss the situation with someone who is more **objective** about the risk?

When our personal interests are at stake, we subconsciously tend to overestimate the risks. A manager who fears to launch a project that could potentially have a negative impact on his reputation or career if something went wrong might still recommend the same project to a friend, in completely good faith, as a unique opportunity to prove the latter's abilities. Perception of risk is thus generally more reliable when those making the decision or those around them are not directly concerned. When we hesitate to make a decision that involves us personally, **asking for a neutral opinion or the help of a coach can be a very good way to remain objective.**

People assess risk differently according to whether it affects them personally.

Our past experiences can also influence our perception of risk. A large American corporation board chairman's gut reaction to a project to tackle the Russian market is a good example. After bitterly failing on this market several years earlier, this man had not been

able to live it down ever since. So, despite extremely favorable indicators, he continued to consider the project to be much too risky. In

this type of situation, it is very difficult to make an objective assessment without help from the outside. Holding collective discussions that take account of the personal reasons for a particular individual's objections can be very helpful in restoring a certain degree of objectivity.

"A risk feels bigger if you think it could happen to you."

How Risky Is It, Really?, David Ropeik, éd. McGraw Hill, 2010