

RISK CULTURE AND THE HUMAN FACTOR, by Geoff Trickey, MD and Business Psychologists at PCL

Over three years, PCL psychologists have been researching human factor risk. This is a topic with a chequered and confused history. Neither academic psychology nor the risk professions had established a coherent conceptual framework or made any convincing contribution to the accurate and reliable assessment of an individual's propensity for risk. Furthermore, this new fascination with Risk Culture of complete organisations represents a massive shift from the traditional focus on procedures and the regulation of risk; seemingly leapfrogging the vexing but crucial topic of 'people differences' in risk taking.

It is certainly true that culture is a current and deeply fascinating topic. There is no doubt about its importance but the complexities and abstractions involved make this a very challenging terrain and there is little consensus about its definition, its structure or how it might be shaped. On the other hand, we do know a lot about people and since, it has been argued, "the people make the place", this is probably a good place to start in unravelling some of the complex issues raised by the concept of risk culture.

PCL research established a model for assessing an individual's disposition towards risk taking, building from the very solid foundation provided by past research into human personality. Not surprisingly, in the present climate, this has attracted a lot of attention from risk specialists and other practitioners in related fields. This new approach identifies eight different Risk Types (Fig:1) based on deeply rooted aspects of personality.

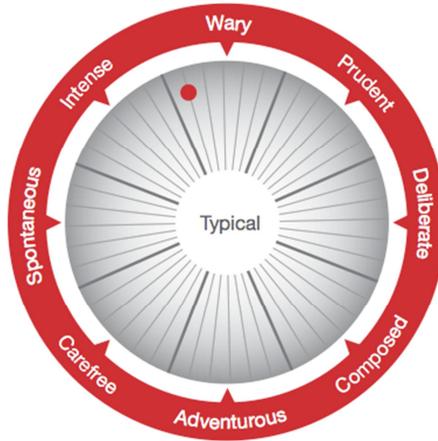


Fig 1

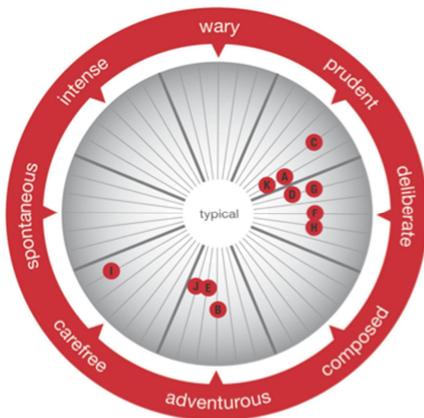


Fig 2

Each Risk Type is associated with a specific level of risk tolerance as well as differences in risk perception, resilience and decision-making. The Wary Risk Type is the most risk averse, being both fearful and highly systematic, they seek to control all risk and to eliminate uncertainty. At the other extreme, the Adventurous Risk Type is impulsive, likes to challenge convention, is very resilient and tends to focus on the opportunities in any uncertain situation. Brief cameos of Risk Types appended to this article.

Of course, many other things influence risk-taking but Risk Type characteristics will always be a pervasive and persistent influence. Within any team Risk Type characteristics will impact on the dynamics of the group (Fig:2). The same would be true for a section or department; even complete professions have their own distinctive balance of Risk Types.

This is a key point for risk specialists as it allows you to understand the group dynamics, resilience and decision-making style of any team. It is often said that, *'if you cant measure it, you can't manage it'* and, from this perspective, the Risk Type Compass® is a powerful psychometric tool in understanding individual risk tolerance.

CASCADE MODEL FOR RISK CULTURE DEVELOPMENT

A common frustration is the lack of participation or support from the board and senior management (2011, IRM Survey) in relation to risk culture. This highlights the importance for any Risk Culture exercise of starting at the top. In this Cascade Model, the exploration of group dynamics and propensity for risk begins at the board level and is cascaded down through the organisation. Team events at each level consider the perception of risk, the capacity to deal with risk and the impact of Risk Type on group dynamics and decision-making. Each group also conjectures about the risk landscape at the next level down, contributing to the agenda for the next level to be involved in the process. In the grand finale of the Cascade Model, the board is presented with the modular pattern of risk culture for their organisation. Figure three illustrates how such a mosaic of Risk Cultures across the organisation might look.

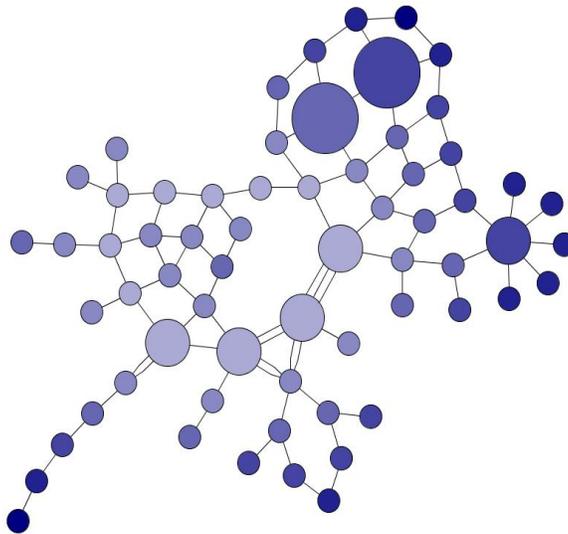


Fig 3

The depth of colour of each element represents the resilience of each team and its overall appetite for risk. A mouse 'click' on one of these elements brings up the group graphic, (like Fig 2) and a 'click' any individual 'dot' in that graphic brings up the Risk Type details for that individual. This style of presentation provides an instant overview of Risk Type across the organisation whilst retaining access to detailed risk profile information for each individual contributing to the overall risk culture. It dynamically conveys the outcomes of the process at each level of the organisation, providing a basis for strategic policy discussions and decision-making

RISK TYPE CAMEOS

Spontaneous Risk Type

Like moths to a flame, they are attracted by the idea of spontaneity and risk, but often regret decisions made in haste.

Intense Risk Type

They invest passionately in people and projects, but anticipation of failure can prove a self-fulfilling prophecy.

Wary Risk Type

Ultra-sensitive about vulnerability to risk they are zealous about securing the future and seek to control.

Prudent Risk Type

Their primary concern is to bring order to everything and to eliminate uncertainty.

Deliberate Risk Type

Calculated and sure-footed, they test the ground and never go into anything unprepared.

Composed Risk Type

Strangers to anxiety and oblivious to risk, they keep their heads when others lose theirs.

Adventurous Risk Type

They will be prepared to try things that no one has ever tried before.

Carefree Risk Type

They relish the on-the-fly decision making required in fast moving situations.