

RISK TAKING: STICKING YOUR NECK OUT!



Definition: Taking a risk means making a choice to gain a desired outcome under conditions of uncertainty with the possibility of losing something you value.¹

To take appropriate risks, one must:

1. Identify means for improving the odds and the magnitude of potential gains
2. Identify means for reducing exposure to loss
3. Reduce uncertainty

Risk-taking performance can be improved with guidance that helps leaders:

1. To recognize personal tendencies toward risk preference, risk avoidance, and risk neutrality.
2. To deal with potential gain, vulnerability to loss, and uncertainty in ways that support constructive change.

Furthermore, inevitable, occasional failure should be a source, not of blame, but of learning.

¹ Kindler, H. S. (1999). "Risk taking for leaders." *The 1999 Annual: Volume 1, Training*. San Francisco: CA: Jossey-Bass/Pfeiffer.

People with a risk-preference pattern tend to:

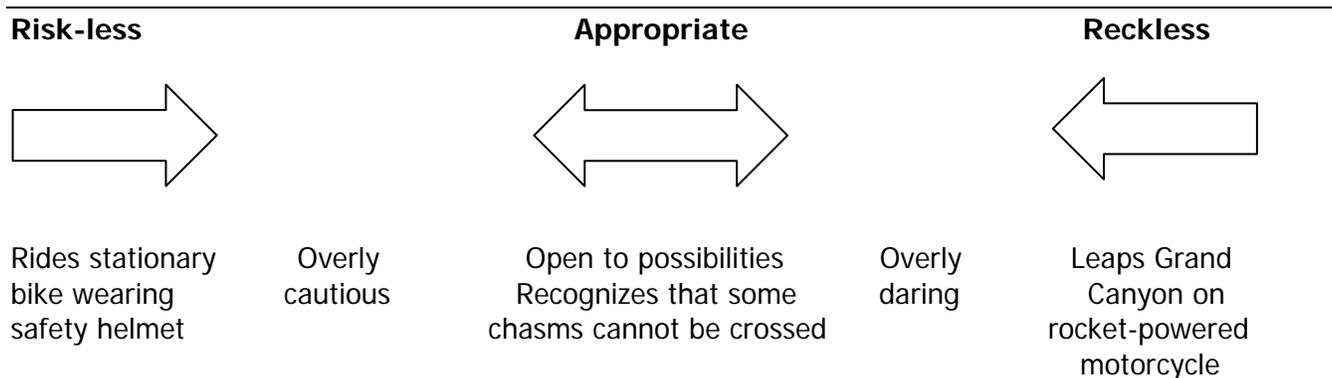
- Underrate uncertainties
- Be overly optimistic
- Seek excitement and novelty
- Overrate or exaggerate the probability of realizing desired outcomes
- Decide impulsively rather than logically or after thoughtful analysis

MOTTO: Nothing ventured, nothing gained

People with a risk-avoidance pattern tend to:

- Overrate uncertainties
- Be overly pessimistic
- Prefer security and comfort
- Underrate or ignore the probability of realizing desired outcomes
- Postpone decisions or close the door of opportunity too quickly

MOTTO: Better safe than sorry.



WAYS TO IMPROVE THE ODDS FOR RISK-TAKING

- **Clarify objectives** – have a clear vision of what you value and desire
 - Consider the values and desires of those likely to be affected by your decision
 - Be clear about the objective – identify the real issue
- **Identify and evaluate alternatives**
 - Do not converge too quickly on an action plan
 - See limitations, obstacle, and restrictions as gifts, as stimuli to challenge your ingenuity and activate your creative juices
 - Rather than choosing between objectionable alternative, discover or invent other possibilities
 - Do not accept either / or alternatives without first considering the possibility of a different course of action
 - Recognize that important assessments often cannot be based on quantitative data, some measures are qualitative, especially when you are measuring what really matters
- **Identify limiting assumptions**
 - Creative options are springboards to better odds and greater gains
 - Fits in with clarifying the real objective
- **Choose action others can support**
 - Identify aspects that make your decision acceptable to people whose support you need
 - Evaluate how congruent your action plan is with the goals, values & priorities of others involved

REDUCING EXPOSURE TO LOSS

- **Share the risk**
 - Cooperative relationships (partnerships, alliances, or joint ventures)
 - Insurance which includes bonding for employees who have access to money
- **Limit the Loss**

Limitations prevent tolerable risks from reaching unacceptable levels

 - Safety nets (severance package and job-hunting assistance) for accepting employment in high-risk projects
 - Buffers, such as flex factors in bridges, spare tires, and inventories stored against unanticipated demand
 - Surveillance methods that limit risk, such as security systems, screening of applicants, and conducting unscheduled audits
 - Pilot experiments, trial runs, market tests, and gradual phase-in of new operations

The most common form of loss limitation, though, is learning from your own and others mistakes. Knowledge gained from previous failure is often critical to achieving subsequent success.
- **Diversify**
 - Portfolio diversification, for example
 - Diversification does not always work, product identification and core competencies are also important

REDUCING UNCERTAINTY

- **Gathering information (know as much as possible, but weigh the following three factors):**
 - Time – will a quick decision or delaying be an advantage or a disadvantage in this situation?
 - Cost – Is the expense of gathering more information going to be off-set by a better decision?
 - Reliability – How reliable is the information already gathered? Do you need multiple independent opinions?
- **Letting events unfold**

If timing is not critical, simply observe events relevant to the risk until the appropriate course of action becomes clear
- **Influencing the outcome**

Do not expect to eliminate all risk. Attempts at total control are usually self-defeating. Attempting to influence outcomes too much can backfire and exerting less control can have a more positive influence on the outcome. Explore which risk factors can be controlled in ways that are feasible, cost-effective, and ethical.

Learning from risks: At its core risk is a measure of ignorance. Therefore, we can improve our future ability to take risks by learning from each experience and by creating risk-friendly environments.

Risk-Taking Analysis model:

Situation: Briefly describe a situation you expect to face in which the decision appears risky.

Gains:

1. What outcomes would yield the gains that you desire?
2. What about this outcome would you value?
3. How good are the chances that these gains will materialize?
4. What factors are critical to a successful outcome?
5. What other options are possibilities?

Losses:

1. What losses might be experienced?
2. How likely is a negative outcome?
3. What impact might such losses have on you and other stakeholders?
4. What is the worst-case scenario?
5. What would be your recovery or loss-limiting plan?
6. Is there a way to share the risks?
7. Can you test your assumptions on a small scale?

Uncertainty:

1. What important uncertainties exist?
2. Can you obtain more information? If so, at what cost?
3. Can you reduce uncertainty by waiting for events to unfold? If so, at what cost?
4. Can you intervene to reduce uncertainty? If so, at what cost?

Action plan:

Considering this situation and your own risk-taking tendency, what specific action steps will you take?