

What is risk intelligence?

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Before defining the concept of “risk intelligence” (RI) itself, let’s first ask the fundamental question of: “Why does a concept such as RI matter?”. The modern world is complex, volatile and essentially risky, and no amount of compliance processes can eliminate that risk — especially if we want to innovate, grow and expand. How can we feel confident that the decisions we make now won’t have unexpected consequences, or if they do, that we can capitalise on them? We can’t predict the future, but we can learn to make decisions that are empowered, innovative and enable us to seize opportunities and manage potential downside consequences if things don’t go according to plan (which they very rarely do!).

After spending thousands of cumulative hours researching the psychology of risk, how it works, and what makes people do what they do and make the decisions they make, one of the core findings our team established is that much like “emotional intelligence”, RI is an attribute and skill that needs to be nurtured and developed. So, in terms of starting to understand “what RI” is, our starting point is to look at some key definitions, and then we can integrate and define what RI in a meaningful way.

Key related definitions

- **Risk** — effect of uncertainty on objectives.¹
- **Innovation** — generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding. Businesses that innovate create more efficient work processes and have better productivity and performance.²
- **Agility** — ability to move quickly and easily / ability to think and understand quickly.³
- **Resilience** — the capacity to recover quickly from difficulties; toughness.⁴
- **Organisational resilience** — refers to a business’s ability to adapt and evolve as the global market is evolving, to respond to short term shocks — be they natural disasters or significant changes in market dynamics — and to shape itself to respond to long term challenges.⁵

- **Empowerment** — a management practice of sharing information, rewards, and power with employees so that they can take initiative and make decisions to solve problems and improve service and performance.⁶

Based on the above definitions, a conceptual integration of core RI attributes is listed and summarised below:

- manage uncertainty, unexpectedness, and the interaction that comes with achieving goals and new frontiers;
- have the ability to move, think and understand quickly and easily;
- focus on creating more effective processes, products and ideas;
- embody social leadership with an emphasis on trust, coordination and engagement;
- focus on creating value for self, others and organisation;
- strengthen likelihood of success through coordination with others who have shared goals;
- share information, rewards, and power appropriately and fairly;
- take initiative and make decisions to solve problems and to improve service and performance;
- display toughness in the face of adversity and have the capacity to recover quickly and respond to short-term shocks; and
- have the ability to adapt and evolve personally, and to shape groups and organisational structures to respond to long-term challenges.

By integrating the above attributes, we believe that RI can be defined as: “RI is a living skill and applied attribute that enables better decision making to proactively embrace opportunity and manage potentially negative outcomes.”

By definition, RI actively incorporates agility and resilience.

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People with a well-developed RI are able to:

- manage self;
- lead and empower those around them to achieve; and
- drive high-reliability organisation (HRO) performance.

Now that we have defined it, we need to look at its application, which starts with the concepts of risk attitude and risk appetite. The two sides of the risk attitude and risk appetite coin represent the extremes of each aspect, namely risk aversion and risk seeking. Both have their pros and cons (refer below), but knowing when to adopt which posture, and how to apply a balanced approach that achieves risk equilibrium, is the inevitable challenge we all face in today's complex and uncertain world. This concept is explored by leading researchers in the field and is described by Dan Ariely⁷ who asks us to remember our fallibility and irrationality when making decisions. How to apply a balanced approach that achieves risk equilibrium is not only an inevitable challenge in terms of our own behaviours, but also, in trying to lead and manage others in a way that empowers them to make decisions.

	Risk aversion	Risk seeking
Pros	<ul style="list-style-type: none"> • perceived safety; • perceived dependability; and • potential stability. 	<ul style="list-style-type: none"> • innovation; • adaptability; and • agility.
Cons	<ul style="list-style-type: none"> • Inertia — stuck!; and • inability to adapt. 	<ul style="list-style-type: none"> • potential harm and loss

The key risk (excuse the pun!) of not getting this dynamic risk equilibrium (DRE) is that we miss out on opportunities because of our risk aversions, or that we may be forced to manage the consequences of extreme risk/s manifesting in a very negative outcome as a result of an attitude that is too risk-seeking. So how do we get this right? Especially when we factor in the reality that our own heuristic and cognitive biases actually mean that most of the time we are not even aware of the significant impacting factors that influence our behaviours and decisions. To answer this question, we need to “unpack” the attribute of RI, at both a micro and macro management level. By doing this we can define the skills, capabilities and knowledge that a risk intelligent leader should develop and enhance. Knowing when to follow and when to lead is also a crucial aspect in the evolution of applied RI.

To do this we have developed what we refer to as the Risk Leaders Toolbox. This toolbox in essence summarises the aspects, skills and capabilities we need to display RI in our personal capacities, to influence others to operate in a risk intelligent way, and to create risk

intelligent cultures in our organisations. The Risk Leaders Toolbox is summarised below in three levels, namely: The “Me” Level, The “Others” Level and The “Organisational” Level.⁸

Tier 1: me

- *Sense-making*: applying sense-making as an ongoing and informed process, actively adopting the three views approach (mine, others and overarching).
- *Meaning-making*: people behave based on the subjective meaning they have given to their experiences rather than objective truth.
- *Mindfulness*: applying “pause” between stimulus and response — and extending that space to ensure you are present in the moment.
- *Constant learning*: evolve and improve so that others will want to as well.
- *Personal and situational awareness skills*: active and passive awareness — starts with base lining and the ability to absorb, analyse and determine possible outcomes of what is happening around you.
- *Critical thought processing*: understanding and applying hindsight, insight and foresight in decision-making and action.
- *Adaptive planning skills*: embrace structured planning with flexible adjustments and implementations to achieve outcomes.
- *Informed intuitive capability*: programming our subconscious effectively and using informed intuition as a trusted tool, but buying time to analyse wherever possible based on our own cognitive biases and heuristic decision-making characteristics.
- *Understanding cognitive biases and heuristics*: an objective awareness and acknowledgment of the subjective factoring in our subconscious influences.
- *Strategic and tactical skill capability*: being able to understand the key aspects of implementation from both levels and perspectives.
- *Fear and stress management*: understanding real versus perceived fear, stress and associated management to ensure effective performance.
- *Adrenal response management*: understanding causation and dynamics, and developing coping and amplification strategies.
- *Managing reality and perception*: understanding the realities of the honest truth about dishonesty (trust but with your eyes open).

- *Believe!:* Because if you don't, no one else will (relevant at all levels; personal, social and organisational)!

Tier 2: others

- *All of the "me" aspects.*
- *Symbolic interactionism:* the way we learn to interpret and give meaning to the world through our interactions with others.
- *Social psychology:* being in the world of others and having the capability to examine and understand interactions in a meaningful way.
- *Empowered accountability:* fighting a no blame culture by stimulating informed risk-taking and accountability (ie, it's not a loss if you learn and adapt (within reason)).
- *Understanding cognitive biases and heuristics* in others.
- *Social leadership:* building trust, deepening relationships, and having real, not perceived, connections with others.
- *Leadership versus managerialism:* be skilled enough to know the difference, and to use both skill sets.
- *Counter the hero myth:* there is no such thing as the perfect leader.
- *Embrace the follower-leader dynamic:* knowing when to lead and when to follow is a critical skill.

Tier 3: organisations

- *All of the "me" and "others" aspects.*
- *Apply HRO principles:* doing so without losing entrepreneurial capability is the key.
- *Understanding what is "normal", what is "extranormal" and what is "abnormal".*
- *Elastic enterprise:* understanding the differences between "growth" and "fixed" mindsets, and how problem-solving strategies can develop or inhibit organisational agility.
- *Adaptive achievement approach:* striving to avoid fixed goal absolutes such as "zero failure or zero harm"; striving to achieve "principles", not numbers, by making sure we have real outcomes not just paper-based metrics that we believe solve issues.
- *Understanding the link between culture, behaviour and bottom line results:* behaviour creates culture and culture in turn influences behaviour.
- *Critical thinking and perceptual sensitivity:* avoiding "common sense", "myths" and creating a uniformed culture via standardised vocabulary, and an objective and sensitised environment.

- *Just culture:* striving for a culture where people feel and believe that things are fair.
- *Social conformity versus values/basic perceptions:* noting and understanding that the tendency to conform can be stronger than values or basic perceptions!
- *Successful business = vision + systems and process + people:* remember and be mindful of this "equation", one part is not more important than any other if we want to achieve.

Moving forward with RI

Ideally, people with a highly developed RI will naturally and instinctively apply the correct aspects of the Risk Leaders Toolbox at the right time. It does, however, take ongoing work and practice to develop the toolbox and make sure you are making it work for you. Leaders can, and do, use the same to enhance their own performance and their relationships. In doing so, it is argued that the motivation of those around them will also be positively influenced in such a manner that will lead to a high-performance, high-reliability organisation output for their employers and a more fulfilling lifestyle for themselves and those around them.

However, most businesses today are not designed with such agility in mind. Their systems are tightly coupled, and their growth has been driven by a desire for perceived efficiency rather than adaptable flexibility. The prevalence of risk management processes that are tick and flick or so complicated and systemised that they are too cumbersome to be used in a meaningful way leads to what we refer to as the CYA (Cover Your A*s) approach. The challenge in moving forward is to take the concept of RI, often observed at a micromanagement level, and to actively embrace it at a macro or organisational level — thereby facilitating the flexibility and empowerment required to realise true organisational innovation, growth and expansion.



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Dr Gav Schneider is an acknowledged leader in the field of human-based risk management and *The Psychology of Risk*.

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Footnotes

1. Joint Technical Committee OB-007, Risk Management Australian/New Zealand Standard (AS/NZS) ISO 31000:2009.
2. See www.business.gov.au.
3. See the definition from the *Oxford Dictionary*.
4. Above n 3.
5. See www.organisationalresilience.gov.au/Pages/default.aspx.
6. See the definition from www.businessdictionary.com.
7. Duke University Professor in cognitive sciences and behavioural economics.
8. Please note that these skills, attributes and capabilities are not listed in order of priority and have not been explained in detail but rather summarised as a quick reference list. It is important to note that the three levels are sequential, in other words without the Me level, the other level will likely not be successful and without the Me and other level the organisational level will likely not be effective.