

Bridgeway to Success™

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SEPARATE RISK TOLERANCE FROM RISK ASSESSMENT.

What You Should Know About Risk

"You're such a daredevil," my mother exclaims, whenever I tell her about our next trip. "Why do you take such risks?" Sure, I'll admit that traveling to Tunisia, Turkey, Laos and Lesotho may not be for everyone but does that mean I'm a daredevil?

Which got me thinking about risk. What should a leader know about risk? I've come to believe that it starts with distinguishing between risk assessment and risk tolerance.

Risk assessment has to do with the probability of various outcomes and the resulting consequences. *Risk tolerance* is your subjective comfort level with those outcomes and consequences.

When assessing risk it's helpful to get objective data or at least subjective opinions based on experience. Without these, one's risk tolerance tends to color the risk assessment.

For example, what's the risk of doing business in Vietnam? Your first reaction isn't very favorable, is it? Yet according to the World Bank*, Vietnam ranks in the top sixth of all countries for enforcing contracts. It's also much easier to start a business, deal with construction permits and to get credit than in China. On the other hand, protecting investors' interests is a major concern in Vietnam.

Next, understand your level of risk tolerance. Some people are simply uncomfortable with even moderate risk. Others love to roll the dice and try to make the long shot work. Depending on the situation, either or both approaches can be successful, although behavior at the extremes is not likely sustainable. In the Vietnam example, there's a great opportunity to access an emerging market of 90 million people. But will your interests be sufficiently protected? Your risk tolerance is what determines that.

The chance of something serious happening to us while hiking in Lesotho was very low. But if something were to happen, according to advice from one local, "then no one would ever know." Hmm. We went on the hike, climbed Hodgson's Peak and lived to tell. Low probability of a negative outcome albeit with very serious consequences. A perceived risk within our tolerance.

So the next time you're faced with a so-called "risky" decision, remember to separate risk tolerance from risk assessment.

* See: www.doingbusiness.org/data/exploreeconomies/vietnam and www.doingbusiness.org/data/exploreeconomies/china

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