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Understanding and measuring risk type

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Understanding and managing risk is a complex field. This article presents findings from a recent study, using the Risk-Type Compass™, that may further our understanding of possible role and gender differences relating to risk.

IN ROALD DAHL's short story *Lamb to the Slaughter*, the murder weapon is a frozen leg of lamb, nicely illustrating the point that the risk attached to any object depends entirely on whose hands it is in. Whether a gun, a knife or a pointy stick presents a threat to anyone is determined more by the nature of the person holding it than by the characteristics of the object. Failure to grasp this simple point, or to take human factors into account, has led to a singularly regulatory approach to risk management that seems to be almost universal.

For all the good that has undoubtedly been achieved, the Health and Safety professions still need to be challenged on two counts; firstly, for the implication that all risk is bad and must be eliminated; and secondly, for completely sidelining the importance of individual differences in risk taking and focusing so predominantly on procedures, regulations and legislation.

The reality is that risk taking is essential, unavoidable and desirable. Individual differences ensure constructive contributions across a spectrum of risk taking dispositions that range from unrestrained impulsivity to an obsession with planning detail and from fearful risk aversion to gung-ho adventurousness. As assessment professionals our contribution to this debate should perhaps have been more constructive. In the absence of any measures that would help risk managers to get to grips with these human factors, the blanket regulation approach has grown to fill all the available space on the risk management stage.

Spot the differences

Financial advisors are required by the Financial Services Authority regulations to assess the risk appetite of all of their clients. When we were asked by a wealth management company to assist them in meeting this obligation, we found that the methods in use across the financial services industry were extraordinarily varied and, in measurement terms, often very dubious. Surprisingly, assessment of personality played very little part, even though the taxonomy of the Five Factor model (FFM) of personality is marbled with themes that have a bearing on risk and, after all, the survival of the species must often have hinged on the risk taking style of our ancestors.

Personality provided our entry point into the development of a risk type measure for our clients. Having thoroughly trawled the FFM domain to identify risk-related themes, we wrote groups of items and gathered data. Analyses identified four very clear factors that inspired the model that emerged. These four factors provided the poles for our compass-style risk type assessment (the four 'pure' types).

We also differentiate individuals falling at the quarter points between these poles (the four 'complex' types). This model reflected our intention that the instrument should (a) be easy to understand and use, (b) capture the psychological essentials and (c) be well

researched. Figure 1 shows a continuous spectrum in which neighbouring risk types blend into one another and the facing types are opposites. Each individual assessed by the questionnaire is allocated to one of the eight types. The positioning of the marker (the black dot) shows the strength of type characteristics, i.e. the more distinctive examples of any risk type are positioned nearer the outer edge of the compass. The typical group at the centre has scores too near the mean to be usefully differentiated.

As well as allocating individuals to one of eight risk types, the Risk-Type Compass calculates a risk tolerance index score (RTi), the least risk tolerant being nearer the top of the compass (wary types), and the most risk-tolerant at the bottom (adventurous types).

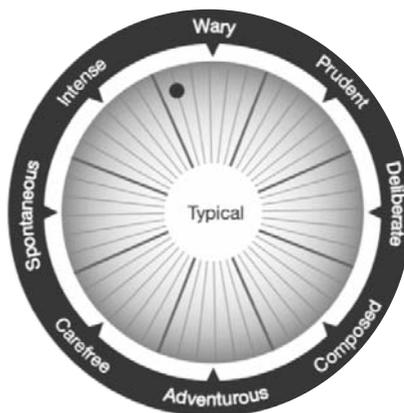


Figure 1:
Illustration of the Risk Type Spectrum

Research overview

In November 2011, we presented the results of a three-year research programme involving 2000 Risk-Type Compass administrations (Trickey, 2011). Data was collected from more than 20 different sectors. The distribution of scores for this sample proved to be very symmetrical and the proportion of types quite evenly spread.

Construct validity research explored the relationship between risk type and RTi scores with FFM measures and with creativity and security. Our research also looked at incidents of the eight types within the UK workforce, in public and private sectors and across Generations X, Y and 'baby boomers'. Sub sample data from engineering (N=92), recruitment (N=141), auditing (N=198), information technology (N=264) show distinctive differentiation between groups in terms of the incidence of risk types. The auditing professions show strong deliberate type tendencies, while the recruitment professions emphasise the carefree type.

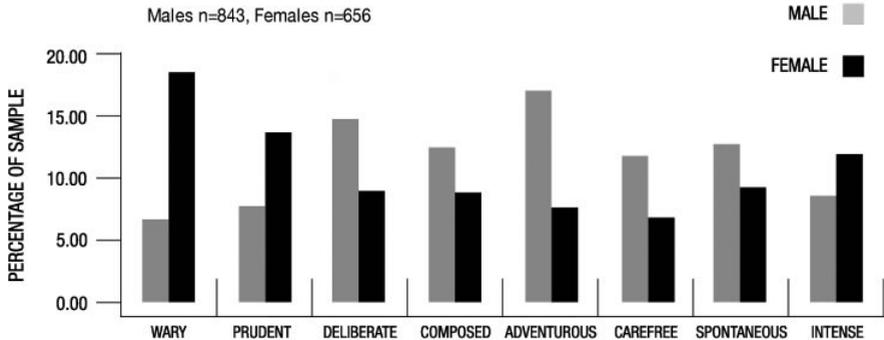
Gender and risk

Journalists and other authors have asserted a female advantage in leadership, whereby women are more likely than men to lead in a style that is effective under contemporary economic conditions (Eagly et al., 2003). A global survey of almost 800 business leaders conducted by McKinsey and Company in September 2009 refers to leadership behaviours that women leaders adopt more frequently than men and reports a correlation between a company's performance and the proportion of women serving on its executive board. They argue that leadership behaviours more frequently adopted by women may be better suited to dealing with the present crisis and the post-crisis world (McKinsey & Company, 2009).

The gender differences in prevalence of risk type that we identify are particularly interesting in this light. The differences illustrated in Figure 2 are very distinctive and show a systematic pattern across the spectrum of risk types, with females especially dominating the wary and prudent types and males the adventurous and carefree types. It

is fascinating to speculate to what extent our extraction of risk themes from the FFM taxonomy has identified the critical feature differentiating the genders. It seems that disposition towards risk may account for much of the intrinsic gender difference typically picked up by other personality measures.

Figure 2: Risk Types of males and females



Conclusion

Risk is a complex and fascinating topic. Behind the apparently ordered facade of current risk management practices, there is a wilderness of dubious science and questionable policies (see Adams, 1995). The crucial step in differentiating what is measurable and predictable from all the ‘noise’ has been to make the distinction between risk type, viewed as ‘constitutional’ and deeply rooted, and risk attitude which we have described as ‘a kaleidoscopic range of incident, personal history, chance and circumstance that is highly individual, idiosyncratic and beyond any known organising principle’ (Trickey & Yeung, 2011).

In our risk taking we are influenced by many things, and above all by what the people around us are doing. The value of an assessment of risk type is that, like the anchor on the sea floor that limits the influence of winds and tides on the tethered boat above, risk type reflects a disposition that exercises a persistent and consistent influence on our behaviour. It offers a typology and vocabulary that facilitates planning, research and discussion about risk tolerance and the suitability of risk types for risk related roles.

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THE CONTINUOUS SPECTRUM OF RISK TYPES

Spontaneous

Uninhibited and impulsive, they enjoy the elation of unplanned decisions, but are distraught when things go wrong. Their passion and imprudence make them exciting but unpredictable.

Intense

They are ardent, anxious and feel things deeply. Passionate but edgy by nature, they invest heavily in people and may enthuse about projects, but they are their own most severe critic and take disappointments personally.

Wary

Self-disciplined, cautious and uneasy, they are organised and systematic but unadventurous. Their need for security ensures that all bases are covered but they never quite dispel misgivings that it may all go wrong.

Prudent

Very self-controlled and detailed in their planning, this type is organised and methodical and work hard to eliminate uncertainty. Tending towards conformity and convention, they are most comfortable with familiarity and continuity.

Deliberate

Analytic and compliant, this type never walks into anything unprepared. They experience little anxiety, but plan things meticulously and manage their lives in purposeful and business-like ways.

Composed

This type is cool headed and self-contained. At the extreme they seem almost oblivious to risk and unaware of its effect on others. They take everything in their stride, seem imperturbable and manage stress well.

Adventurous

The adventurous type is uninhibited and fearless. At the extreme, they combine a deeply constitutional calmness with impetuosity and a willingness to challenge tradition and convention.

Carefree

Easy-going, daring and excitement-seeking, they deal with fast moving situations 'on the fly' and may appear either flexible or reckless. Through latitude or casualness, they sometimes accept the risk of making hasty decisions.

The author

Geoff Trickey is the founder and Managing Director of Psychological Consultancy Ltd.

Conflict of interest

PCL is the developer and sole distributor of the Risk-Type Compass.