

Understanding Risk Tolerance In Decision Making

November 2022



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Why Don't We Do More Development for Decision Making?



“In a knowledge-based economy, we propose that a knowledge worker’s primary deliverable is a good decision.”

“In addition, more and more people are being tasked with making decisions that are likely to be biased – *because of the presence of too much information, time pressure, simultaneous choice, or some other constraints.*”



How Can Decision Making Be Improved? Milkman, Chugh, Bazerman. 2008

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What Is A Decision?



de·ci·sion

/di'siZHən/ 

noun

a conclusion or resolution reached after consideration.

Source:
<https://www.google.com/search?q=what+is+a+decision>

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General Decision-Making Approach: Maximizers and Satisfiers



- Maximizers

- Will research extensively
- Will continue to look for new alternatives even after suitable choices have been identified.
- Will always aim to make the best possible choice.
- Tend to mull over decisions at length.
- Are often less content with their choices after the fact.

- Satisfiers

- Will research only to the extent they feel necessary.
- Will choose an option that they feel is 'good enough'.
- Tend to make decisions more quickly.
- Are more content with their choices (less concerned with alternatives they didn't choose)

Source: Schwarz – The Paradox of Choice, Wiley, 2005.

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Which Is It For You?



- Are you a maximizer or a satisfier?
- What do you consider to be some of the advantages of your approach?
- What do you consider to be some of the disadvantages?
- Think about the last time you made a major purchase (car, house, computer or something else costing thousands of dollars). Tell your partner about that process?

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Another Angle : General Decision-Making Styles

- Intuitive
 - Emphasizes a reliance on hunches and feelings.
- Rational
 - Emphasizes a thorough search for and logical evaluation of alternatives.
- Avoidant
 - Emphasizes postponing and avoiding decisions.
- Dependent
 - Emphasizes a search for advice and direction from others.
- Spontaneous
 - Emphasizes a sense of immediacy and a desire to get through the decision-making process as soon as possible.



Source: Scott, S. G., & Bruce, R. A. (1995). Decision-making style: The development and assessment of a new measure. Educational and Psychological Measurement, 55(5), 818-831.

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System 1 and System 2



- System 1

- Fast
- Automatic
- Frequent
- Emotional
- Stereotypic
- Subconscious

- System 2

- Slow
- Effortful
- Infrequent
- Logical
- Calculating
- Conscious

Kahneman – Thinking Fast and Slow, 2011

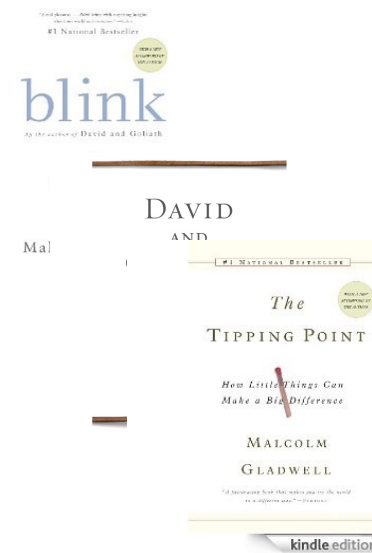
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How We Decide

- “Truly successful decision-making relies on a balance between deliberate and instinctive thinking.”

Malcolm Gladwell

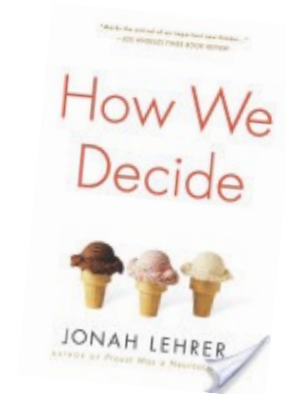


Understanding Emotion



“The process of thinking requires feeling, for feelings are what let us understand all the information we can’t directly comprehend. Reason without emotion is impotent.”

Jonah Lehrer - How We Decide



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The EQ-i 2.0 Model of Emotional Intelligence



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Decision Making Composite



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- **Problem Solving** is the ability to find solutions to problems in situations where emotions are involved. Problem solving includes the ability to understand how emotions impact decision making.
- **Reality Testing** is the capacity to remain objective by seeing things as they really are. This capacity involves recognizing when emotions or personal bias can cause one to be less objective.
- **Impulse Control** is the ability to resist or delay an impulse, drive or temptation to act and involves avoiding rash behaviors and decision making.

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Using Your Emotional Intelligence To Make Better Decisions

- Explore and understand the emotions you are experiencing around the decision.
- Consider what biases you may be experiencing
- Connect with others to get input and advice on the decision.
- Reduce the amount of information you are trying to process.
- Weigh the pro's and cons of acting now or waiting.
- Recognize the impact that other areas of EQ
- Work to maximize your emotional effectiveness.



Risk Disposition In Decision Making



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Where Does Risk Fit?



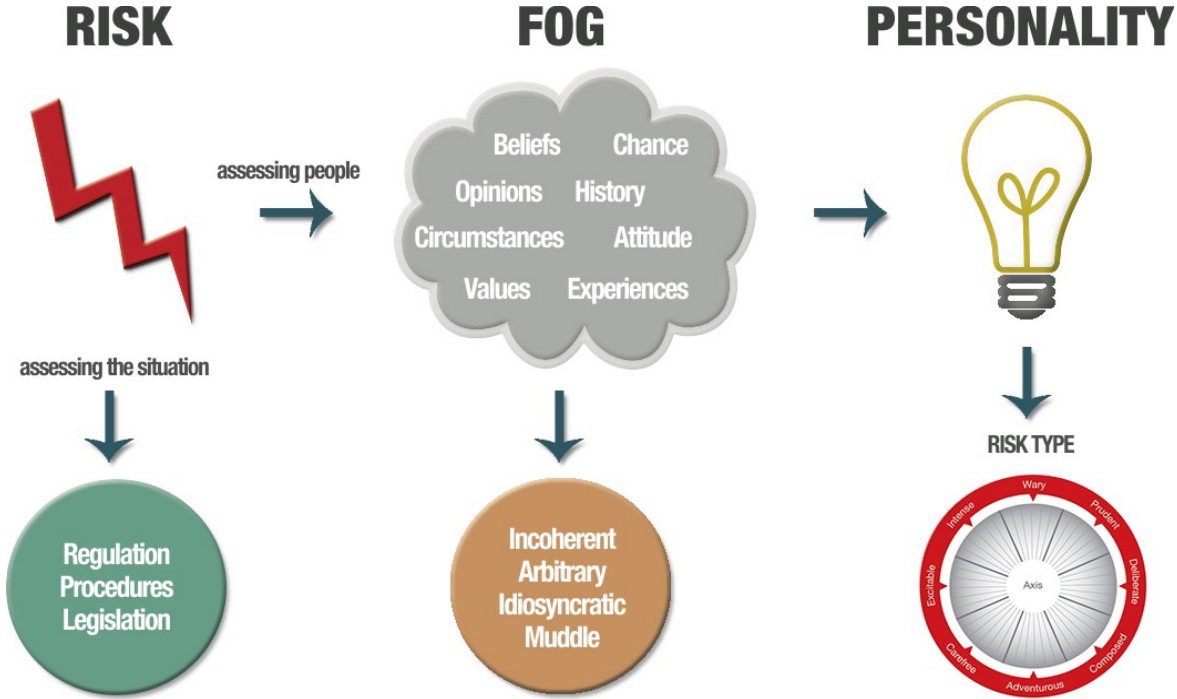
- Something is only risky when the outcome is not certain
- As soon as the outcome is not 100% certain (or believed to be 100% certain), our risk approach comes into effect.



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Understanding Approach To Risk

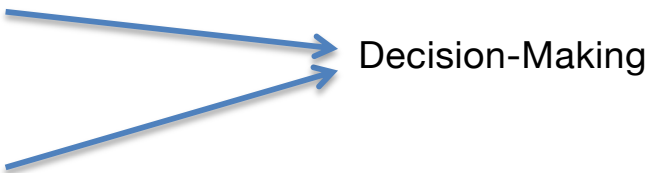


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The Risk Type Compass®



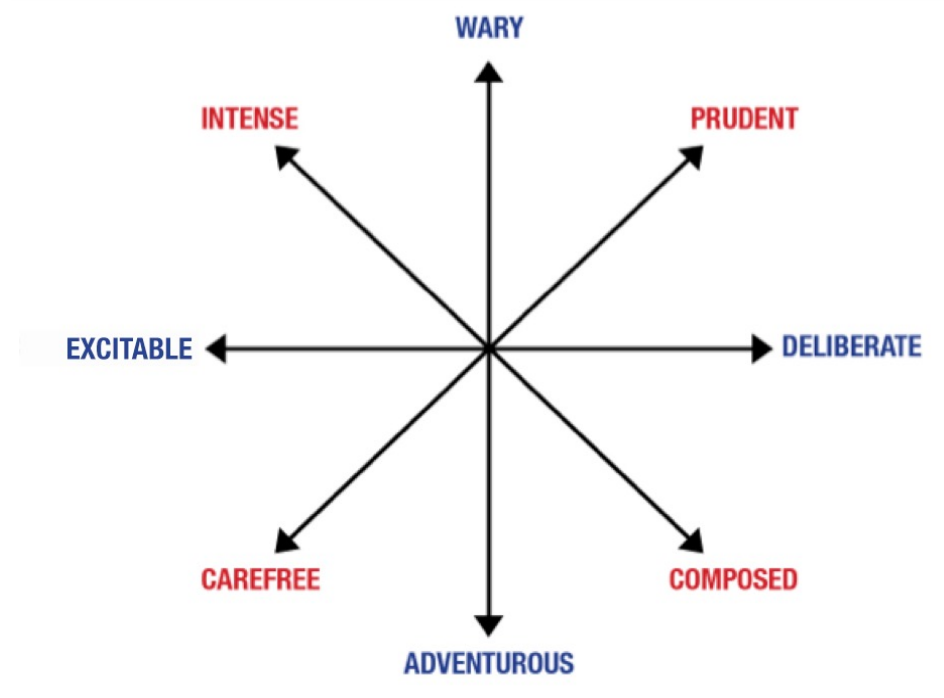
- Explores an individual's
 - Risk perception
 - Reaction to risk
 - Risk takingA diagram consisting of three blue arrows pointing from the sub-points 'Risk perception', 'Reaction to risk', and 'Risk taking' towards the text 'Decision-Making'. The arrows originate from the right side of each sub-point and converge towards the 'Decision-Making' text.
- Used across industries from C-suite to the shop floor
 - Individual, team and organizational level & Financial Advising

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The Eight Risk Types



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The Eight Risk Types - Descriptions

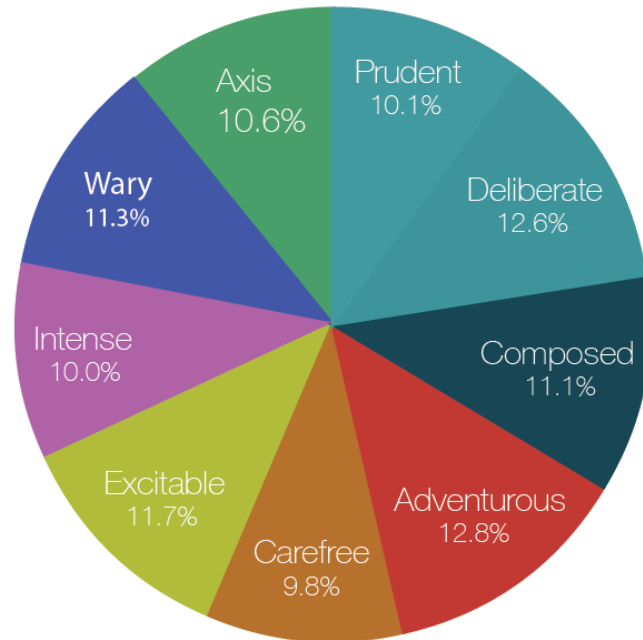
- **DELIBERATE**
Imperturbable, confident and systematic, they are fearless and well prepared.
- **COMPOSED**
Calm, cool-headed and optimistic, they seeming oblivious to risk.
- **ADVENTUROUS**
Calm and unemotional but impulsive, daring, and up for any challenge.
- **CAREFREE**
Unconventional and excitement seeking, their imprudence makes life exciting.
- **EXCITABLE**
Uninhibited, spontaneous, unpredictable and distraught when things go wrong.
- **INTENSE**
Enthusiastic and committed, but pessimistic and easily defeated by setbacks.
- **WARY**
Well-organized but anxious and fearful of failure, they passionately seek to control.
- **PRUDENT**
Cautious, self-controlled and most comfortable with continuity and familiarity.

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Risk Type in Working Population



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10 Ways To Make Decisions Better



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1. Take Care Of Yourself



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2. Beware Decision Fatigue



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3. Acknowledge The Feeling



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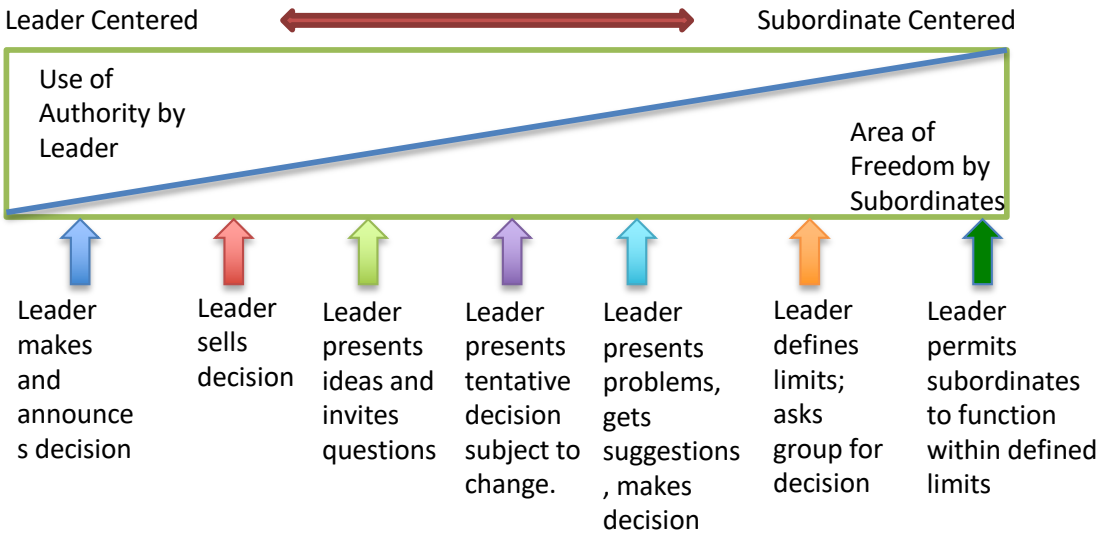
4. Slow Down, or Even Stop



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5. Delegate What You Can



Tannenbaum & Schmidt (1973)

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6. Seek Support



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7. Seek (Some) More Information



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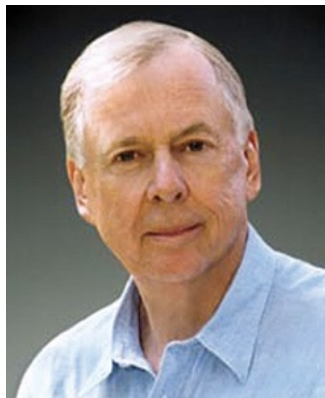
8. Discuss Decisions



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9. Make More Decisions



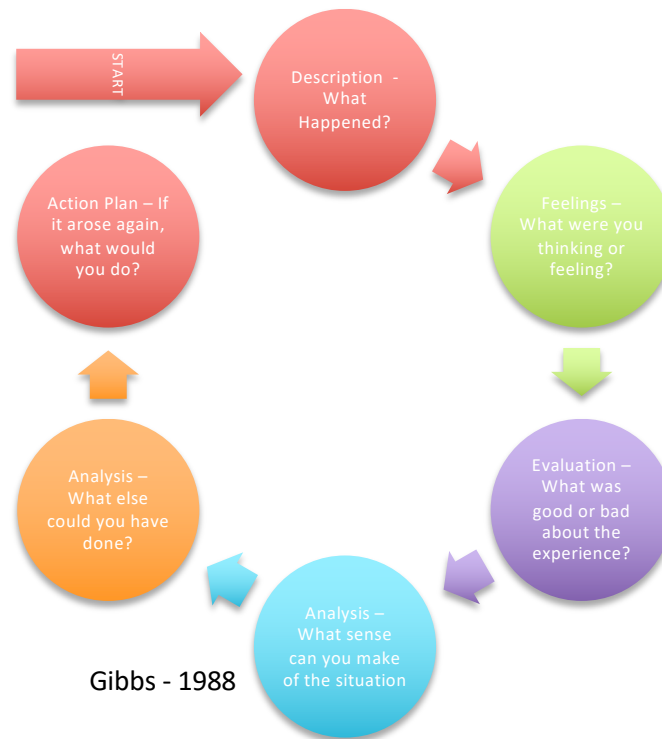
“Be willing to make decisions. That’s the most important quality in a good leader. Don’t fall victim to what I call the ‘ready-aim-aim-aim-aim’ syndrome. You must be willing to fire.”

T. Boone Pickens

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10. Learn From Your Successes (and Mistakes)



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Questions, Thoughts, Comments



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