Do you embrace risk or do you just not see it?

Know yourself — willingness to engage with risk may be down to how you perceive it.



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A person’s attitude to risk can tell you a lot about them. Somebody who likes to gamble is a risk seeker, and someone who doesn’t is risk averse.

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Risk preferences extend to many areas of life. Consider choosing between job offers: Would you opt for a role at a traditional company or a startup? For most people, the startup, which might deliver either rapid growth or failure, would be the more uncertain option. You might assume that a risk seeker would leap at the chance, while someone risk averse would turn to the stability of an established firm.

But this story may be incomplete. In research that drills down into how people make decisions, IESE professor Johannes Müller-Trede, with coauthors Yuval Rottenstreich and Alex Markle, examines "risky sure things" — choices that should be safe but seem risky, and vice versa. Sometimes it isn't a taste for risk that drives choices, they argue. It may be how people perceive the situation to begin with.

Perceptions can create a framework for making decisions

"If it doesn't work, I can just sell my business and move on."

This is an attitude seen among many entrepreneurs — in fact, having such an attitude is more likely to foster an entrepreneurial mindset, compared with a perspective that sees starting a business as a make-or-break proposition.

Choosing a job at a startup is similar. Whether this seems a chancy prospect may depend less on your appetite for risk and more on your personal background and situation. What are the stakes? Can you afford for things to go wrong? Startups typically offer lower base salaries but include stock options, which can boost earnings if the company is a success. For candidates who can afford a few bumps in the road, an uncertain payoff might simply not come across as such a gamble.

Risky is risky, but are "safe bets" really safe?

An executive deciding whether to focus a company on proven niche brands or unproven brands with broader potential is arguably choosing between a "sure thing" and something riskier; likewise, the investor who debates whether to allocate short-term funds to cash or stocks.

But if perspective can skew the idea of risk, it also distorts the idea of a "safe bet" or "sure thing."

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The authors found that when uncertainty is the norm in a decision-maker's life, the safe bet starts to look, counterintuitively, risky.

In the case of the jobseeker, if everyone in her social circle works in traditional jobs, the startup looks risky. But when entrepreneurship-and-startup culture is the prevailing standard among friends and peers, a traditional job may not look safer.

This is because, compared with entrepreneurship as a default, the traditional firms will appear to offer both a potential relative gain and a potential relative loss. If the startup fails, the regular salary at a bank seems reassuring. But if the startup succeeds, that same salary will suddenly become paltry. Framed in this way, the traditional firm takes on multiple outcomes — and therefore becomes a risky proposition.

If you're not regularly exposed to risk, then sure things really do seem sure and more appealing. But if uncertainty forms part of your everyday life, sure things can seem as risky as any other alternative.

Risk perception also affects the people you work with

Risk appetite remains an integral part of any decision-making process. But managers may find it useful to really consider what's informing their perceptions before making any major decisions. Speaking with others and seeing if their perceptions of the risks involved align with yours may help you see peril and opportunity in new ways.

About the research

The authors carried out a series of studies featuring classic thought experiments with Coin Flips and Sure Cash and similar choices on more than 5,000 subjects. In each experiment, the exposure to risk was framed differently by manipulating the reference point, and the resulting decision-making process was analyzed.



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