

## R I G H T R I S K N E W S

### What is Risk and What Does it Mean for my Future?

How Much Risk is Right for You?

**R**isk is generally understood to mean future events for which the outcomes are unknown or uncertain. However, it is important to note that not all aspects of the unknown future are created equal. We might describe risk as a case where the unknown future matters; if the outcomes did not matter, there would be no risk. In such cases, the consequences make a difference to those who are making the decisions or may be affected. Risk does not always imply a negative or bad outcome. Uncertain future events may result in good, bad, or neutral outcomes. The probabilities or the likelihood of one or more outcomes may also be unknown.

People tend to think that complex problems require complex solutions when faced with risk alternatives. This tendency compounds the challenges even further. With risk the opposite is true. Simple rules can not only help to clarify the choices open to us, but also make the consequences more obvious. This can help make risk savvy choices more possible in the face of an unknown future.

#### Known Future (Certainty)

Much, if not most, of the future is unknown to decision makers. However, that does not keep us from attempting to predict what it holds for us! *“Humans appear to have a need for certainty, a motivation to hold on to something rather than to question it”* (Risk Savvy, 2014).

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Gigerenzer, 2014

Generally, a known future is a sleight-of-hand or an illusion. It is not attainable in the ordinary circumstances of daily life. In fact, it is rare that we are able to list all the possible outcomes for a given circumstance, let alone the probabilities that one of those outcomes will occur. This holds true except in special situations such as games of chance like poker, slot machines, dice, and the like.

Gigerenzer suggests that our desire to make certain elements of our lives certain stands in our way to becoming more risk savvy, or able to manage in a world full of unknowns (Risk Savvy, 2014).

One common misunderstanding many decision makers have about the future is known as the zero-risk illusion. The zero-risk illusion is when someone mistakes known risk (known outcomes, known probabilities) for certainty. For this reason and others, it is important to be clear about our terminology and the meaning of those terms.





## Unknown Future (Uncertainty)

Almost nothing is certain and, instead, uncertainty should be expected. The unknown future should be thought of as the normal or usual situation we encounter when considering how events might turn out. This future can be and is influenced by a number of factors. For our purposes, it may help to break these factors into three broad categories: risk, attitudes, and human factors.

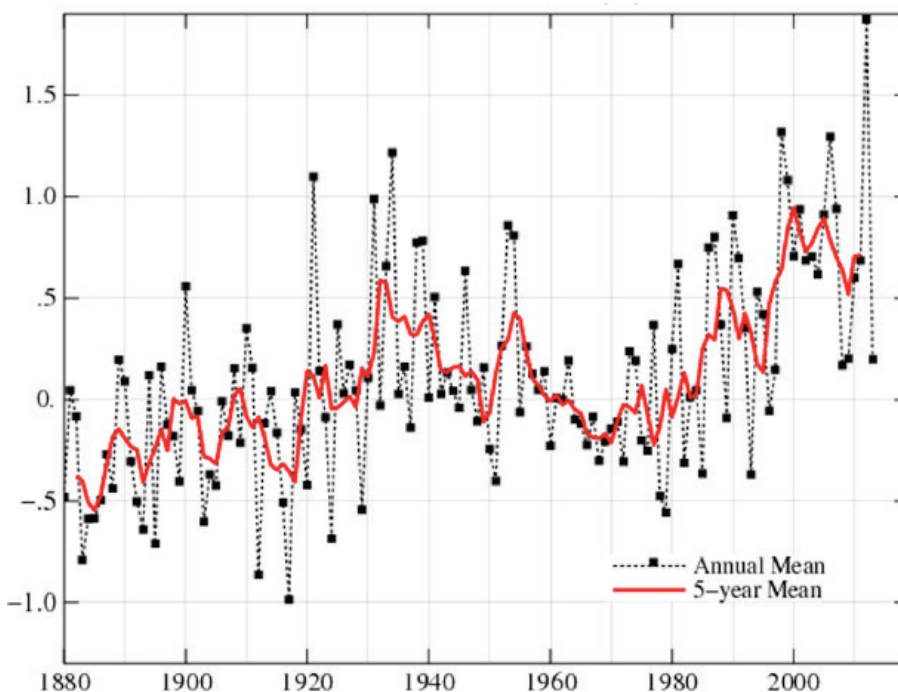
Risk is uncertainty that matters. The variation in outcomes make a difference to one or more decision makers involved in making management choices. Attitude may be thought of as a chosen response to risk. Human factors are the variations people, individuals and groups, bring to the consideration of both risk and attitude.

Another illusion about the unknown future, often shared by decision makers, is named the Calculable Risk Illusion. In this case, a person mistakes the unknown future (uncertainty) for known risk. The point to recognize here is that not all aspects of the unknown future are knowable.

## Variability (risk)

Future events are unknown to us due to two, separate and distinct factors. The first of these is variability. Variability means alternative or different outcomes in the future due to the effects of chance. As a result, this type of change or variation in results cannot be reduced by further study or by any type of measurement. Variability is also what most managers have in mind when referring to risk.

Variability may be reduced, in some cases, through a change in the underlying system. Agricultural examples might include changing a calving system to include calving sheds, where calving in the open was practiced previously or upgrading the physical irrigation system or associated technologies, where flood irrigation practices were followed in the past. An example of changing the physical system in a game of chance might be using weighted dice where normal dice were used previously.



In each case, the outcomes of future events remain unknown. However, the variability of those outcomes has changed, due to a change in the underlying system. Sometimes management changes increase the variability, other times consistency is increased. Decisions to manage variability generally focus on reducing the consequences of negative outcomes, increasing the likelihood of positive outcomes, enhancing the benefits of positive outcomes, or possibly all of the above.

Another important point to realize is that not all risk is bad or represents a substantial threat to a business. Variations in genetic diversity may offer a competitive

advantage to a seed-stock producer or plant breeder. In addition, it may offer a higher degree of resilience to a business operating in a risky environment.

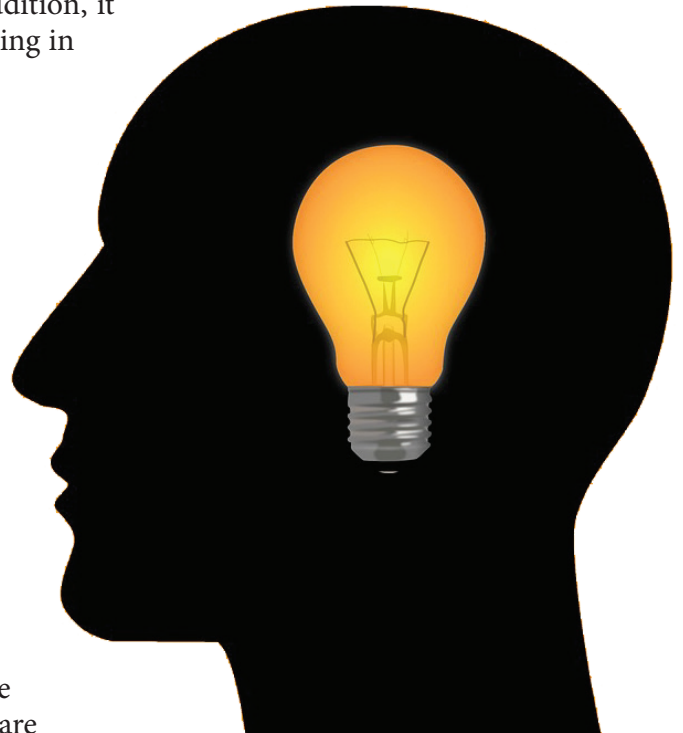
**Uncertainty (indeterminability)**

The second factor of the unknown future is uncertainty. Uncertainty refers to our lack of knowledge about the future. It may even represent our uncertainty about the meaning of current events and what they might imply for future outcomes.

Uncertainty can sometimes be reduced by further study or measurement. In such cases, a manager becomes more aware of outcomes that are possible or perhaps is better able to estimate the likelihood of a set of outcomes through research on the underlying system.

Uncertainty may also represent the subjective nature of the individual making the evaluation. The perceptions of the decision maker about what outcomes are possible, as well as how likely those events are, may or may not be accurate. However, the fact that the individual believes the assessment is correct and the degree to which those beliefs are taken into account when making decisions can lead to even greater uncertainty in decision making.

Considered in this light, some refer to uncertainty as indeterminability or ambiguity. The point here is that some aspects of uncertainty are unknowable and, as a result, unmanageable. Stated another way, it is impossible to know much of anything about the unknown unknowns!



Deeper insights and further information on risk in agriculture can be obtained by accessing the online module *Understanding Risk in Agriculture* and associated eBook at: [RightRisk.org/Courses](http://RightRisk.org/Courses).

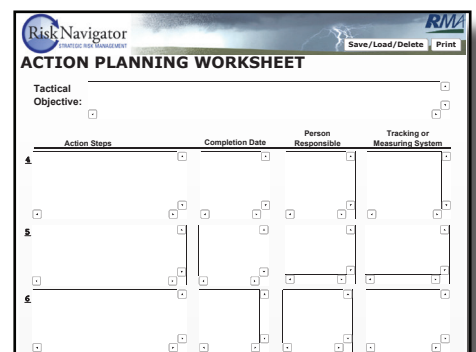
Reduce It  
**RISK**  
 Avoid It  
**MANAGEMENT**  
 Build Capacity to Bear It

Gigerenzer. 2014. *Risk Savvy: How to Make Good Decisions*. Viking. Penguin Group LLC. New York New York.

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The *Action Planning Worksheet* provides assistance in planning the action steps required to achieve objectives. The worksheet provides blanks for specific action steps, dates for completion of each step, the person or persons responsible, and the tracking or measuring system that will be used to determine if the actions have occurred as planned. The worksheet is a very helpful tool for assigning specific task responsibilities to individuals and delineating the activities that must be accomplished in order to achieve your tactical objectives over the coming planning period.

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**Contributing authors:**

John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, [hewlett@uwyo.edu](mailto:hewlett@uwyo.edu)  
 Jay Parsons, Risk Management Specialist - University of Nebraska-Lincoln, [jparsons4@unl.edu](mailto:jparsons4@unl.edu)  
 Jeff Tranel, Ag and Business Management Specialist - Colorado State University, [Jeffrey.Tranel@ColoState.edu](mailto:Jeffrey.Tranel@ColoState.edu)

**Editing and Layout:** John Hewlett, [hewlett@uwyo.edu](mailto:hewlett@uwyo.edu)

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