

## WHAT'S THE BIG IDEA? RISK APPETITE

The only people who are really hungry for risk are those unfortunate sensation-seekers who need near-death experiences to brighten up their otherwise colourless lives, but this is not what risk managers mean by this increasingly popular phrase. Rather, their concern is how much risk you are prepared to bear to reach your goals. This is much more sensible, but leads towards three nasty truths about risk. One is that we are lousy at risk calculus. Even professionals who operate in the eye of risk blizzards, such as surgeons and politicians, find it hard to compute the loss/probability equation. Two, risk calculus requires you to have lots of observations to give you a meaningful statistic, yet many of the most important risks are one-offs. You can't be 10% dead after surgery. Three, the more we want something, the more we are likely to adjust our risk assessments optimistically. Human passion, as ever, clouds the rational picture. Risk appetite? Just the starter and the cheese, please – make too much of a meal of it and you could wind up seriously sick. Nigel Nicholson is professor of organisational behaviour at the London Business School

