

RIGHTRISK™

RIGHTRISK NEWS

Risk Intuition

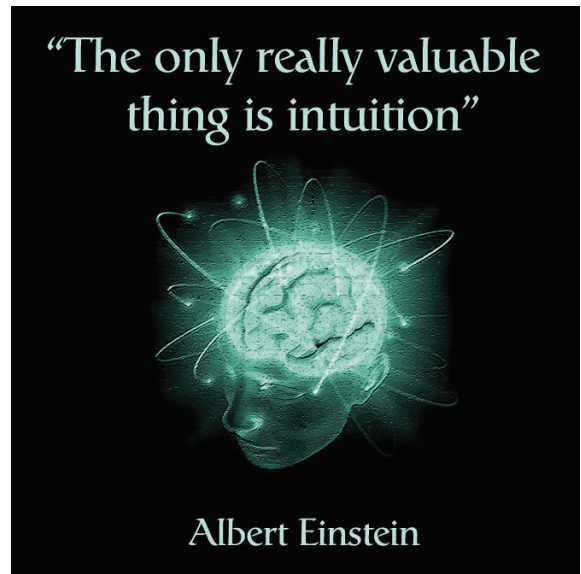
DATES TO REMEMBER

Noninsured Crop Disaster Assistance Program (NAP)
 Deadline for springseeded forage and all other crops
 - April 1, 2020

Spring crop acreage reporting deadline
 - July 15

For more information see:
<http://www.rma.usda.gov>
<http://www.fsa.usda.gov>

People with good intuition can be thought of as people who consistently reach accurate conclusions with the appearance of little or no formal analysis. These conclusions often manifest themselves as decisions seemingly made on “gut instinct” that often produce good results. Nuthall and Old (2018) characterize intuition as a part of human capital that “significantly influences the decision making success of most businesses.” It is important to understand that this human capital is built up over years of experience involving observation and reflection, particularly over mistakes or near mistakes.



How Much Risk is Right for You?

Decisions made under risk and uncertainties are an everyday part of life in agriculture. Decision makers seek information on possible outcomes, probabilities and impacts but are often left with incomplete information at the time a decision needs to be made. This sometimes leads to no decision at all, or a decision to do nothing, in an effort to avoid taking a chance at being wrong. In his book, *Risk Savvy: How to Make Good Decisions*, Gerd 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.

Becoming more risk savvy can be thought of as developing risk intuition. Risk intuition is the ability to think about risk and uncertainty in a decision making environment without becoming overwhelmed. It involves consideration of the current and emerging conditions. It requires the willingness to anticipate the range of possibilities concerning what might happen and possible impacts even when data is lacking or the existing data overwhelms our ability to process it. It is enhanced by mental simulation skills and a willingness to reflect on what you know and don't know about the future.

Why is developing your risk intuition important?

People tend to think complex problems require complex solutions. This tendency compounds the challenges even further. With risk the opposite is true. Simple rules and intuition 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.

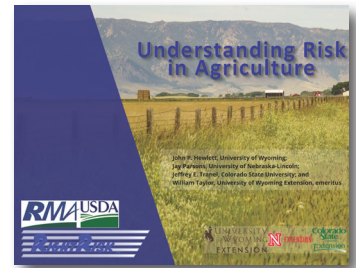
There is little to no formal education offered on risk at any level of our education system. One of the consequences of this is that people tend to develop a defensive posture when it comes to risk and avoid it at great lengths. This is often manifested in the procrastination to make decisions when uncertainty is present. There is a propensity to wait it out and see what happens. If things go wrong, you can blame the weather or the market forces while focusing on a reaction to the situation. Even though your instincts may have told you there existed some proactive actions you could have taken to better manage the distribution of possible outcomes, you avoided the risk of taking action unnecessarily and, therefore, avoided the risk of looking like you made an incorrect decision.



HIGHLIGHTED COURSE

In popular usage, risk 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. 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. *Understanding Risk in Agriculture* is an online, self-paced learning module designed to help clear away some of the misunderstandings around risk and risk management. The module includes slides with audio, an electronic text, a recorded webinar and much more at no cost for access.

To view the *Understanding Risk in Agriculture* online module, see RightRisk.org > Courses.



RISK INTUITION CONTINUED FROM PG. 1

However, farmers and ranchers speculate on risk all of the time. It is part of getting ahead or earning a competitive advantage. Not all risk is bad. Where there is risk, there should be reward. The willingness to identify risk management objectives and consistently align risk management decisions with those objectives is a critical component of successfully developing and using your risk intuition.

Developing intuition is sometimes confused with developing heuristics. Heuristics are “rules of thumb” we all use to make frequent decisions or when we don’t have a lot of time for analysis. They help avoid long, drawn-out analysis of alternatives that may require data collection from various sources and lengthy analysis in order to reach a decision. Heuristics are a part of intuitive decision making but not a necessary part of developing your risk intuition. Heuristics sometimes don’t result in the best decisions because they are often shaped by our biases regarding uncertainty. Kahneman (2011) strongly noted that biases can lead to incorrect intuitive decisions. That being said, using heuristics can enhance the implementation of your risk intuition when they are developed with a awareness of potential biases, especially those resulting from your current attitude toward risk.



Risk attitude may be thought of as a chosen response to variability and uncertainty. Human factors may lead to different responses from different people. Risk attitude can change over time for an individual based on current life factors and experiences. It goes without saying that risk attitude can affect risk intuition. In farming and ranching, this is especially acute because risk attitudes can change dramatically based on several factors including the time of year, market news, conversations with lenders or business partners, and even the time of day we are thinking about the decisions. It follows that risk attitude can be modified. It is important to recognize that fact as we consider important risk management decisions. People can learn to manage their emotional response to risk by focusing on accomplishing their objectives in a disciplined and orderly fashion rather than letting fears and negative perceptions guide their intuition.

Nuthall and Old speculate that seventy percent of intuition can be learned and conclude that experience, open communication, reflection and self-critique are the most important factors contributing to improving intuition. You can improve your risk intuition by committing to a process for thinking about and managing risk with each decision. It doesn’t have to be complicated but it does need to be a consistent willingness to consider the uncertainties and risk that have an affect on your business objectives.

References

- Gigerenzer, G. 2014. *Risk Savvy: How to Make Good Decisions*. Viking. Penguin Group, LLC. New York, NY.
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Nuthall, P. L., and K. M. Old. 2018. “Intuition, the Farmers’ Primary Decision Process. A Review and Analysis.” *Journal of Rural Studies* 58 (November 2017): 28–38.

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*How much risk
is right for you and your operation?*

*RightRisk helps decision-makers
discover innovative and effective
risk management solutions.*

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