Special issue on risk management: 2

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In issue 3–4 of Volume 1 of the *European Journal of Decision Analysis*, we published the first five papers of the special ‘issue’ on risk management. Here, we publish the second tranche of three papers. In our editorial there (1:165–168) we made a number of general comments on risk management and its importance in decision making in organisations. We do not repeat those remarks here. Risk management is a very broad area. The three papers here extend our coverage in different ways.

Huschto and Sager (2014) consider risks relating to the pricing of conspicuous consumption products, e.g. branded or designer goods which command prices way above their intrinsic worth in terms of their supposed function. Their prices carry a substantial premium because they relate to social status in some way. In a recession, such companies face a dire choice: maintain their premium prices and run the risk of pricing themselves out of sales and into bankruptcy or drop their prices, maintain sales but risk debasing the value of their brand, an interesting balance of risks and one that is difficult to achieve.

Budescu et al. (2014) take us in a quite different direction with an experimental study to understand the effectiveness of different ways of displaying uncertainty. Such behavioural studies are vital both for the design of decision aids and also in helping analysts understand how to discuss results with their clients. Kahneman’s

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(2011) recent bestselling book *Thinking Fast and Slow* has brought to the public's attention the difference between intuitive *System 1* thinking and the slower, explicit, analytic *System 2* thinking. Knowing this difference exists and dealing with it are very different things. Analysts develop their results through System 2 thinking and then their clients may assimilate and understand them through System 1 thinking, introducing biases and misconceptions. Moreover, although in risk management we usually need to follow System 2 thinking, this may not always be the case. Gigerenzer has obtained results showing that System 1 thinking is not always superior to System 2 thinking. Sometimes simple algorithms and intuitive heuristics may be more appropriate in situations characterised by high uncertainty and ambiguity (Gigerenzer 2000). The profession needs the advice that results such as those in this paper if it is to truly support risk owners appropriately in facing up to uncertainties.

Merad et al. (2014) look not at the individual but society and the processes of public risk management. Modern democracies are introducing many more deliberative structures into their decision making in which the public and stakeholders participate with the government's organs in societal risk management. This inevitably changes many of assumptions underpinning older approaches, in which decisions were made by a few representatives 'behind closed doors'. Not only do we need to address the harder issues of conducting a much wider inclusive analysis which captures many plural perspectives, but there are a whole host of softer issues relating to communication networks, organisational logistics, legitimacy, governance and ethics. Their paper focuses on the latter softer issues, reminding us that the process of risk management is far from a simple technical one.

The common thread running through all three papers is the need to go beyond expected values when dealing with risks in context in which social values, status and public concerns dominate the debate. Analytic tools are also useful for these situations, but they need to be embedded in careful communication processes and structured forms of deliberation and discourse.

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