Why risk assessments should be included in job application processes, job placements, and career advice

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As social creatures, humans are very adept at distinguishing individual differences in one another’s personality, behavior, and abilities. However, being part of the aspects that make each individual unique, there are two traits that are not as easily observed and that are related to risks. These are preferences and beliefs [Kuhnen and Knutson 2011; Bassi et al. 2013], which can also be referred to as risk tolerance and risk optimism. While assessments of personality and intelligence are frequently included as part of job application processes, job placements, and career advice, individual risk attitudes have been ignored. In this article, we will present evidence to support the idea that individual differences in risk propensity should be assessed and included as part of these processes.

Risk tolerance, risk optimism, and their association with personality
Risk tolerance refers to a resilience towards negative risk-related feelings, as seen in people who experience physical excitement when making financially risky decisions (e.g. “Taking risks is not a problem for me. I like the excitement of gambling.”). Related to risk tolerance, but originating from a different concept, risk optimism includes assessments of risk-relevant assumptions (e.g. “I believe that financial investments lead to monetary gains.”). Although our research group is currently studying the association between these two concepts and their relation to brain activation and real-life stock trading, a recent neuroeconomic review on the psychology and neuroscience of financial decision making [Frydman and Camerer 2016] points out that they have both been shown to affect financial decision making [Kuhnen and Knutson 2011; Bassi et al. 2013]. Additionally, several different self-reported measures of risk (recreation, health, career, finance, safety, social, and overall risk propensity) have been shown to be strongly linked to specific personality trait (Big Five) patterns [Nicholson et al. 2005]. Here, overall risk propensity was associated with high extraversion and openness to experience, as well as low neuroticism, agreeableness, and conscientiousness. The same study additionally investigated risk attitudes in different job function groups and organization types [Nicholson et al. 2005]. It was found that individuals working as consultants self-reported the highest values of overall and financial risk taking. On the other end of the spectrum, individuals working in HR, PR, and communications were found to be more overall and financially risk averse. Additionally, the study showed that individuals working for the public service, military, or the government were at the low end of the financial risk taking spectrum, while individuals working for a finance or IT/Telecoms organization were at the high end [Nicholson et al. 2005].

Personality and job satisfaction
In the field of work psychology, the association between personality traits and job satisfaction has been long-standing (Fig. 01). As an
example, job satisfaction for individuals working in manufacturing was found to be positively correlated with emotional resilience, optimism, and tough-mindedness [Lounsbury et al. 2003]. In contrast, job satisfaction in consultants was not associated with tough-mindedness, but positively correlated with emotional resilience and optimism, as well as assertiveness, interest in good customer service, extraversion, personal image management, openness to experience, and work drive [Lounsbury et al. 2003]. Since the link between job satisfaction and job performance is well-known [Judge et al. 2001; Fig. 01], it becomes clear why job application processes, job placements, and career advice should include personality assessments. When individuals with distinct personality traits have a suitable job, they are more likely to experience a higher job satisfaction and perform better. This will then benefit the employer, as well.

Risk assessments are already being used successfully

In some industries, risk attitudes are already part of standard individual assessments, and the results have led to major improvements for both the individuals and their employers. As a prominent real-life example, risk-seeking soccer players with a talent for dribbling are consistently asked by their coaches to engage in such risk taking behavior. In the event of a successful dribble, the tradeoff between high risk and high payoff becomes clear. In finance, the Markets in Financial Instruments Directive (MiFID) has improved customer profiling (Marinelli and Mazzoli, 2011), but MiFID I and even the newer MiFID II are not on par with the newest scientific findings regarding an adequate assessment of risk preference [Frey et al. 2017]. This could explain, why newer “FinTech” investment management companies such as Whitebox, Scalable Capital, and Investify, include additional questions about risk attitudes in their individual assessments. This more thorough approach has the potential benefit of leading to higher customer satisfaction, since these individuals purchase more suitable financial products and are thus more likely to avoid a potential stressor and an inherent decrease in their quality of life.

All sides can benefit from risk assessments

Personality assessments are already frequently used to improve job application processes, job placements, and career advice. However, despite the fact that personality traits and individual risk-related measures are consistent over time [Costa and McCrae 1988; Terracciano et al. 2006; Van de Venter et al. 2012; Frey et al. 2017] and correlate significantly [Nicholson et al. 2005], it must be pointed out that personality assessments do not specifically measure risk propensity. The fact that risk preference should be seen as its own psychological trait was specifically pointed out in a recent study [Frey et al. 2017], thus making it clear that individual risk propensity should be assessed additionally to measures of personality and intelligence. For an appropriate implementation of such risk assessments, we suggest that the risks that are inherently involved in a prospective job (or regarding career advice: inherent risks within that career) should be identified first (Fig. 01). Next, the propensity towards overall and specific risk of the individual applying (or the individual looking for career advice) should be assessed (Fig. 01). Armed with risk assessment information from both employer and employee, an overall score could be calculated that would then serve as an additional criterion when attempting to match individuals for specific jobs or careers (Fig. 01). An individual whose on-the-job risk exposure meets their own personal comfort level will experience greater job satisfaction and is likely to perform better (Fig. 01). As this would also improve the employer’s performance, all sides stand to benefit (Fig. 01).

Literature