

Project Visions and Visioning



This article is developed within the scope of the Project Visions and Visioning, an effort to enhance Foresight learning through collaborative work.

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Introduction

The essence of risk was captured for the first time by Antoine Arnaud even from 1662 when he stated that "Fear of harm ought to be proportional not merely to the gravity of the harm, but also to the probability of the event" (*quoted in De Ben J. M. Ale, 2009, pg.4*). Given this statement risk can be associated with the aspect of probability, possibility, chance, uncertainty, fear or even doubt. In Arnaud's perspective, probability is presented more as a certainty than as an uncertainty, aspect which proves that risk can be measurable. In 1921 the American economist Frank Knight referred to uncertainty as being measurable.

Definitions

One well-known definition is given in Webster's New World Dictionary of the American Language (1979, Simon & Schuster, New York) where risk is defined as the chance of injury, damage, or loss. The construction to put oneself "at risk" means to participate either voluntarily or involuntarily in an activity or activities that could lead to injury, damage, or loss.

The first question to be asked on this topic is: "What is a **Risk**?". Briefly and commonly known a "Risk" is:

- The possibility of suffering a harm or loss.
- An element, factor or way that includes unknown dangers.
- An event that could happen and reduces the chance of success.

Risk in project management

In a **Project management** approach, it can be considered that: "A risk is **PROBLEM WAITING TO HAPPEN**". To better understand and identify a risk, it is indicated to look for some particular properties of it, like:

- A Risk is an event in the **future**, not in the present.
- It **could** happen (is not a fact)

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- It is **potentially** harmful
- It could increase, decrease, disappear or happen

Now passing on to the second aspect of risk in an organizational and economic entity, it is time to ask: "What is **Risk Management**?". We can define this concept as being: "The process of identifying risks, analyzing the exposure to them and determining how to best handle such exposure in order to decrease the probability of a project failure".

In practice, Risk Management has the following key elements:

- Objective
 - Identify and qualify project risks
- Directives
 - Identify project risks (3 to 5 risks)
 - Build risk statements
 - Identify project probability and loss, and calculate exposure
 - Rank risks
- In group
 - Discuss the identified top risks

In project management the main steps identified in managing risks are exposed in the following **Figure.1**:

Steps in the risk management cycle

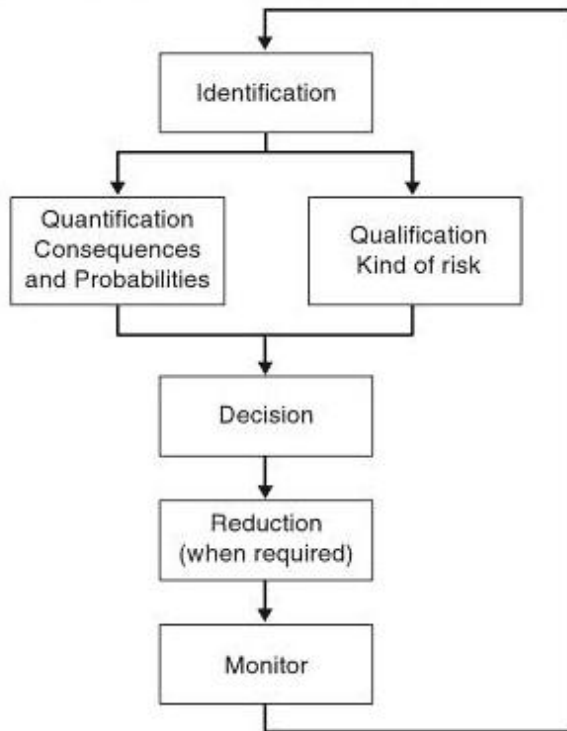


Figure taken from De Ben J. M. Ale's book, 2009, pg.11.

Risk management from Jacques G. Richardson's perspective

Risk is very often referred to when managing hazards, dangers, perils or injuries. Trying to control all of these situations involves risk management. From this perspective, Jacques G. Richardson analyzes several relevant situations where risk management was highly important.

Jacques G. Richardson outlines in his two research papers *Uncertainty, the critical basis of risk management* and *The certainty of uncertainty: risk management revisited*, the fact that most decision makers, being them company executives, chairpersons or presidents, take decisions under certainty, risk or uncertainty. Risk stands at the border between certainty and uncertainty, when risk is undertaken actions may lead to probably unknown consequences and outcomes.

As it can be observed from Richardson's cases, risks can be classified as it follows:

- risk that can be easily observed at a first glance;
- technological/financial/medical/investment/social risk or of other sort;
- undetectable/unforeseen risk.

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Having identified the risks that appeared in the cases presented from the two texts, the main actions that were undertaken were the following:

- taking risks was avoided due to lack of certitude or confidence;
- decision was made by intuition;
- more information was gathered;
- working on the problem in order to reduce the risk.

In order to support these statements, some of the most relevant cases presented by Richardson are debated in the following paragraphs. From the cases presented by the author in his two papers, risk is usually caused by lack of information, confidence or a strategy to combat the unpredictable. The cases of Jean Bouton and Dominique Strauss-Kahn are relevant examples in this sense. Bouton, the head of the French bank Societe Generale resigned when facing the consequences of the financial crisis while Dominique, the general director of the International Monetary Fund had no strategy and "little fear of the long-term risks"(Richardson, 2010, pg. 49). However, the case of Algerians stands as a positive example of calculated risk and strategy for undertaking risk. In their attempt to liberate themselves, Algerians constructed a rebel strategy that proved to be very useful in avoiding the risk of failure(*Idem*). Even though it is generally accepted that risk calculation came from the military, risks are not absent from the military life. A confirmation to this statement is presented through the situation concerning the Allied landings in Norway, June 1944. Thus the landing was planned to happen on the 5th of June, due to unforeseen bad weather conditions, the landing was postponed for the next day or when the weather conditions will improve. Being a tense situation, General Eisenhower made a risky decision when he decided to land despite the unfavorable weather conditions. (Richardson, 2009, pg.19)

Given this precedent and many others, one can argue that even nowadays there are few people who make decisions based on calculations, most of the decisions are made on the spur of the moment, by intuition or more often based on past experiences. The case involving the military aircraft supports this final idea. Due to successful civil precedents, planes air-force version were developed by the government despite the risk that there was no warranty for them. As the author emphasized, decisions are made not based on calculated risks but on the "will to progress" which is "essential to the decision processes implicit in the courses of action finally taken". (*Ibidem*, pg. 21).

However, another relevant case presents the importance of risk assessment and management. In 2009 with the threat of a pandemic from the swine-flu virus, the doctors based their research on probabilistic risk assessment and came with the measure to urge the population to avoid crowded places in order to prevent contamination with the existing virus. This risk assessment was done on time fact which proved that often "preventive measures may be the best solution to a severe problem".(Richardson, 2010, pg.54)

Nevertheless, when dealing with risks, an interesting approach can be that of comparing risks to the enemies from a battlefield. In this sense the military represents a good start when examining how risks can be foreseen and overcome. As in a war a leader has to think through all the possibilities and situations in which the enemy might attack, in other contexts the situation stands exactly the same. In order to understand and find measures to avoid risks from happening, one has to get to know very well the enemy with whom he deals with. After this, following the military example, one's attention should be concentrated on assessing the risks identified and developing suitable tactics and strategies to prevent or overcome them. As presented in the two research papers there were few the cases when precise strategies and tactics were developed to prevent and overcome risks. In this sense the cases of the two bank general directors and that of General Eisenhower are relevant.

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Another example of good risk management is the poker world. As Jacques G. Richardson briefly reminds in his paper "Certainty of uncertainty", professional poker players, are recruited by big brokerage companies and hedge funds for their qualities and experience in dealing with risks. Unfortunately the poker world is an unknown for many and is perceived as a world of uncalculated risk. In fact if we take a close look we will discover a whole different truth and realize that a professional poker player is probably one of the best suited risk managers you can hope for. Poker, just as stock markets, is a game of high variance and big risks, that can lift you up or drag you down on very abrupt slopes. In order to make it a profession and not just a gamble, the ability to assess and deal with risks is essential starting from bankrolls and ending with the risk/profit calculations for each and every hand played. Just as in the case of the battlefield, you need to take all the variables into account when you make a decision: you need to know how your opponent plays, what statistics do you have on him and how do they help you, do you have a big enough bankroll to play the stakes he plays so that you eliminate variance and accordingly the risk of going broke and lots of other aspects that if neglected will almost certainly spell disaster. In fact, the most relevant difference between the poker risk management approach and other risk management approaches is that in poker, solving and preventing risks is a must and never a maybe. Any unsolved risk, is nearly certain to become a problem and to quickly transform a poker pro into a professional gambler, walking into a dead end.

Moreover, two important statements regarding risks are emphasized by Richardson in his papers. These statements prove to stand valid nowadays not only for past and present situation but also for future ones.

One statement is "Risk is, of course, a two-sided gamble: doing too much or undertaking too little" (*Ibidem*, pg. 61). This first statement seems to come in completing to John F. Kennedy's statement regarding risks: "There are risks and costs to a program of action, but they are far less than the long-range risks and costs of comfortable inaction." (*John F. Kennedy (1917-1963) Thirty-fifth President of the US*). It can be asserted that risks are in fact great challenges and tricky situations when decision-makers are confronting the possibility to either lose everything or gain everything. Regardless of this fact, what is important to be pointed out is that the act of risking brings something, whether it is success or failure, but the act of avoiding taking risks brings nothing new to a situation. The second statement is "Accepting all risks means accepting risks that are not acceptable" by Jacques Lesourne (*Ibidem*, pg. 62). The idea that prevails from this statement is that risk taking involves assuming responsibility for all the consequences that might appear whether they are other potential risks or successful opportunities.

Therefore, from Richardson's two statements and from the cases made available through his research papers, one can conclude that the essence of risk management is about preventing or exploiting the existing risks. The situations exposed in the two papers emphasize that higher risk taking can lead to higher returns and successful opportunities but there are also a lot of cases to prove the contrary that risk taking can bring destructive consequences.

Interpretations

Reading the two articles as support for this topic: "The certainty of uncertainty: risk management revisited" and "Uncertainty, the critical basis of risk management" by Jacques G. Richardson slowly made me realize and believe that a big factor of risk appearance is transparency and lack of information. For example: is the writer's vision, the public and many economists have held the lack of financial-market transparency as a critical factor in the build-up to the crisis of 2008. Huguette LaBelle sustains that: "The costs of disclosure in well-regulated markets are borne by all those who promote a risk, or transfer it to others. From preventing excessive short-term risk-taking to exposing potential conflicts of interest, transparency is a key to ensuring that confidence is restored" (LaBelle, 2009).

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The writer also sustains that: obstacles of different sorts have emerged. I also believe that these are lack of agreement on propulsion details, defects in coordination between widely separated technical centers and factories, contrasting work habits and work discipline among the several nationalities, and the inevitable cultural clashes regarding who is 'right' and who is 'not right' when solid agreement is otherwise paramount. A very interesting fact presented in the first article was the concept recently introduced by Niall Ferguson in the pages of the journal *Foreign Policy*, the idea of the axis of upheaval as a guiding theme: the loci of factors that will inevitably guide much of the world and its geopolitical health during the coming decades of probable instability. The noted historian describes these loci as '[e]conomic volatility, plus ethnic disintegration, plus an empire in decline. That combination', Ferguson stresses, 'is about the most lethal in politics. We now have all three. The age of upheaval starts now' (Ferguson, 2008). From the variety of examples illustrated in the paper, it is clear and also I support it, that the will to progress or to reform is essential to the decision processes implicit in the courses of action finally taken. The 'will to progress' may range from a pondered exercise in selective options to a brusque choice taken almost on the spur of the moment. Whatever the method, uncertainty is overcome, the risk is defied, and the outcome managed as it develops.

Also a great part of these essays is that the opposite of uncertainty is admittedly assuredness, but such certainty may often be lacking when planning new or reinforced strategy. The careful reckoning of risk is everything in how future conditions will permit the implementation of a strategy once adopted—whether carefully pondered or the desperate poker player's go-for-broke tactic. The examples cited in the paper were selected because of the weighing involved of certainty vs. uncertainty. In the second mentioned essay it was examined the hazard, danger, sometimes even peril that managers and other deciders must confront. Those who decide live in an environment of persistent uncertainty so that the challenge of risk accompanies almost every decision made. Potential gain must be balanced, therefore against putative loss. An interesting part is regarding the economic goal of innovative firms seeking a tenable world rank is the one most often at the top of the list. This is self-evident but it risks estrangement from a vision both more extended and more in conformity with European genius. The knowledge society beckons us to a shared birth in a new world, where creativity would be developed among all of us. Teaching, which transmits science, is evidently involved from the outset: not by creating a scientific and technical culture, as this term tends today to be repeated too often, but by recognizing the embedding of science and technology within culture itself [. . .] What's more, such recognition must also embrace making room for others 'today's fraction of the world that our scientific and technical development leaves ever further behind us.

The second essay ends with a glance at the probability 'uncertain vs certain' of the nature of space exploration to come. The manned expeditions to the Moon that began in 1969 have given way, quite reasonably, to pondered exploration of the planets and possibly beyond. The Ares I rocket had its first launching on October 2009, holding some promise of further manned exploration because of improved propulsion, composite materials ever lighter in weight, and better information technology. My favorite quotes from these two articles are: 'Accepting all risks means accepting risks that are not acceptable' (Jacques Lesourne) and 'The powers of human self-deception are seemingly endless [. . .] [W]e have thus far sought to solve all our problems by the expansion of our economy. This expansion cannot go on forever and ultimately we must face some vexatious issues of social justice [. . .]?' (Niebuhr, 2008).

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