



# Exploiting Future Uncertainty

## **CREATING VALUE FROM RISK**

David Hillson



Exploiting future uncertainty



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**CREATING VALUE FROM RISK**

**Dr David Hillson**

The Risk Doctor

**GOWER**

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# Prologue

My first experience of applying a structured approach to managing risk came in 1985 when I was a young and inexperienced project manager and my boss called me into his office. “We’ve decided to introduce risk management to the company, and we’re starting with you.” It turned out that my project had been selected as a pilot for this new-fangled thing, to see if it could help us deliver value to our customers more successfully. But when I asked for some guidance I discovered that I was on my own. Although we’d decided to “do risk management”, we didn’t know how.

So began my long journey, which continues to this day, to find out what risk management is really all about. From my earliest experiments with the format and content of Risk Registers and reports, through discovering the intricacies of Monte Carlo simulation and influence diagrams, to today’s frontiers of risk attitudes and enterprise risk management, it’s been a roller coaster. One thing has sustained me: risk management works!

I’ve found that applying some basic concepts through a simple process with a few supporting tools and an understanding of human nature can make a huge difference between success or failure. And once I’d learned some of the tricks of the trade I wanted to pass them on to others. Starting with my colleagues in the same company, then working with small consultancies, and finally through establishing Risk Doctor as a global risk consultancy, my goal has always been to share insights and get as many people as possible benefiting from managing their own risk successfully.

Communication has always played a big part in this strategy. Speaking at conferences and seminars, writing books and articles, contributing to blogs and discussion boards, answering emails and web queries – I’ve used them all to get the message out as widely as possible. One of the most successful channels has been Risk Doctor Briefings, distributed freely to the opt-in Risk Doctor Network and available for free download from the Risk Doctor website in multiple languages. Each of these one-page articles focuses on a single topic, offering proven tips and hints for practical application, addressing issues that many people find confusing or difficult about risk management.

Risk Doctor Briefings represent a great resource, a repository of useful advice and information. Anyone can download a briefing from the Risk Doctor website and use it to improve their understanding of risk management. But in keeping with our communication goal to spread the word to as many people as possible, we’ve repackaged the content of Risk Doctor Briefings into this book. Organised by five key themes and arranged into a logical sequence, the body of knowledge contained in the briefings is presented here as a coherent whole for the first time.

This is not a textbook, covering every aspect of risk management comprehensively and exhaustively. It does however address most of the things that people frequently find hard about managing risk. Each section presents a clear explanation of an issue and offers practical ways of dealing with it.

There are several ways you can use this book. You can dip in and read a single section on a particular topic, since each section is self-contained and deals with one subject. Or you can read a whole chapter to get a broader view of a theme. Or use the index to find specific items. However you use it, the aim is the same. I offer these insights to help you understand the risks you face, to give you proven ways of addressing them, and to enable you to create value from risk.

Of course there is no guarantee that everything in this book will work in every situation. Some of the perspectives may be controversial and you might disagree with what you read. But I invite you to engage with the material, think about what it says, and try to apply it in your own setting. If it works, then do it again – and please tell someone else. But if it doesn't work, then don't do it again – and please tell me!

I take full responsibility for this book, recognising that the content reflects my own limited perspectives and partial understanding of this complex and fascinating topic. But several people have made the book possible and they deserve my thanks. Lesley Hussell of Editing Edge transformed a series of stand-alone briefings into a single coherent manuscript, creating a compelling easy-to-read narrative. Sam Farrow's design team made Lesley's manuscript look great and gave it that *je-ne-sais-quoi* polish. I'm grateful to both Lesley and Sam for their expertise and encouragement. The thousands of Risk Doctor Network members provided the motivation to write the original briefings, and their feedback and comments have helped me to refine my thoughts and learn new things. My professional colleagues have patiently discussed risk theory and practice with me, testing my ideas, putting me straight in some areas, and helping to shape my approach. We don't always agree but the exchange is fun! And finally I'm indebted to my wife Liz, who brings reality to bear on the risk world, with her unique blend of gracious good humour and insightful wisdom.

But really this book is for you, the reader. I hope you find it stimulating, provocative, useful and challenging. The future is uncertain but we can exploit that uncertainty to create value. Go for it!

**David Hillson, The Risk Doctor**  
**Petersfield, Hampshire, UK**





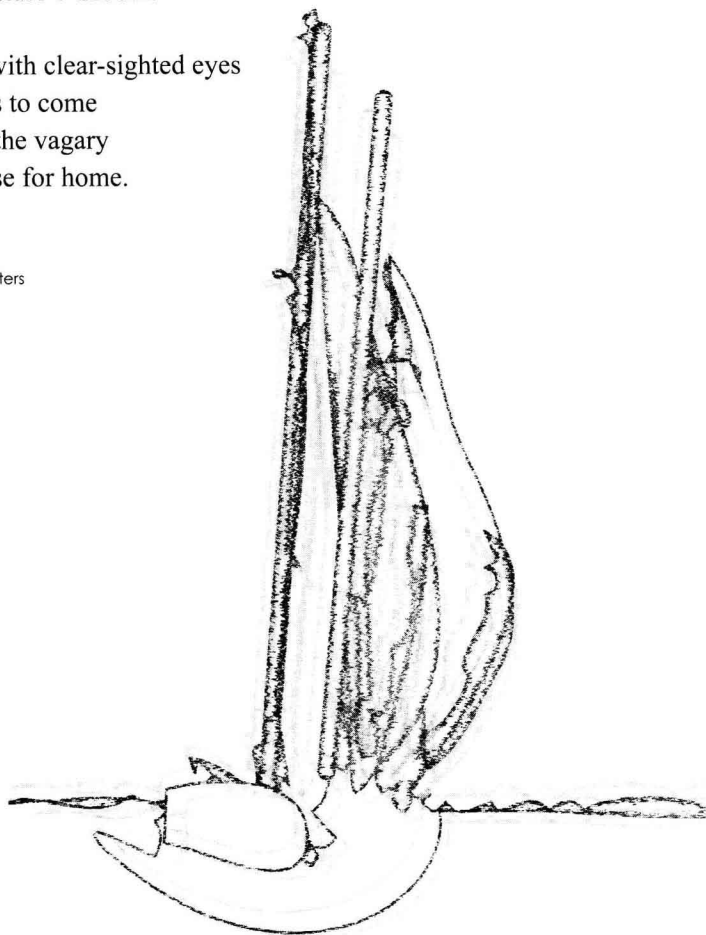
# Introduction

What's new?

Navigation, the mariner said,  
Is the key to our success or doom  
The winds and tides are unknown Brides  
To our uncertain future's Groom.

So scan the skies with clear-sighted eyes  
For signs of events to come  
Allow leeway for the vagary  
And set your course for home.

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Picture a majestic galleon with billowing sails and a hopeful crew, tossed on stormy seas with the prospect of many perils ahead but also the lure of fabulous riches.

Humans have been dealing with risk for millennia, with more or less formality, and with greater or lesser degrees of success. In the Middle Ages when merchants set sail from Europe seeking their fortune in the East, they knew the journey would be fraught with danger. The potential for untold riches, however, led them to make the voyage despite the possibility of disaster. The old Italian word *risicare* (meaning “to dare” and the root of our modern word “risk”) was used to describe the act of undertaking such an adventure, with two possible outcomes: sink and die or return fantastically wealthy.

The same concept of uncertainty included both downside and upside outcomes. Although only the negative sense of risk is common today, this book sets out to show how risk also means opportunity for every organisation. The Chinese concept of balance, expressed most commonly in yin yang, is used to describe many complementary opposites, including dark and light, female and male, low and high, cold and hot. The Chinese character *wei ji* is often translated as “risk” and has two elements that represent a similar duality (shown below), with one part meaning “danger” and the other meaning “opportunity.”

危机



If organisations wish to benefit from a broader view of risk, people will need to be re-educated in both thinking and language to ensure that both sides of risk as threat and opportunity are recognised and accepted. The Western cultural heritage which has produced the limited “risk = threat” formulation must be tackled head on.

The formal discipline called risk management offers a structured framework for identifying and managing risk. Given the prevalence and importance of the subject, we might expect risk management to be fully mature by now, only needing occasional minor tweaks and modifications to enhance its efficiency and performance. Surely there is nothing new to be said?

**The Western cultural heritage which  
has produced the limited “risk = threat”  
formulation must be tackled head on.**

While it is true that there is wide consensus on risk management basics, the continued failure of organisations to deliver consistent benefits suggests something is still missing. Clearly there must be some mismatch between risk management theory and practice, or new aspects to be discovered and implemented, otherwise all risks would be managed effectively and success would follow.

