



RISK DOCTOR BRIEFING

WHEN ARE BLACK SWANS WHITE ?

© October 2010, Dr David Hillson HonFAPM, PMI Fellow, FIRM

david@risk-doctor.com



A new term has become popular among people when they talk about risk, including some risk specialists. The phrase “Black Swan” is taken from the title of the 2007 book by Nicholas Nassim Taleb called “The Black Swan: The impact of the highly improbable”. Unfortunately the way most people use this term is different from Taleb’s original definition. In popular conversation the Black Swan event is something with an extremely low likelihood of occurrence and an extremely high potential effect. It is seen as the thing that we think will never happen, but if it did happen then we would really be affected in a big way. By contrast, in his book Taleb says Black Swans have three characteristics: they are unexpected and unpredictable outliers, they have extreme impacts, and they appear obvious after they have happened.

The term comes from the idea that in the Western world a few centuries ago, it was a known fact that all swans were white. Any similar bird of a different colour could not be a swan, by definition. Then explorers travelled to Australia in 1697 and discovered true swans that were black, and the known fact had to be modified in the light of new evidence. In today’s world the Black Swan changes the rules and creates a new paradigm. Examples include the fall of the Berlin Wall, the 11 September 2001 terrorist attacks in America, the rise of Google, or the recent financial crisis.

Events or circumstances with extremely low probability and extremely high impact are in fact just risks and they can and should be tackled through the normal risk process. There is no useful reason to give them the special name of Black Swans.

Another popular use of the “Black Swan” term is to describe “unknown unknowns”, which are things that we do not know but where we are unaware of our ignorance. This is nearly right, but not quite. In fact “unknown unknowns” can be divided into two types, one of which is a true Black Swan and the other is not.

1. The first group are “unknown-but-knowable unknowns”. There are some uncertainties that we currently do not know, but which we could find out about. This is where the risk process can help, through creative risk identification, exploration and education. The aim is to expose those unknowns that could be known, so that we can deal with them effectively using a standard risk management approach. They are not Black Swans because we could know about them if our predictive or discovery processes were better.
2. Secondly there are “unknown-but-unknowable unknowns”. These are much more difficult to deal with, since by definition we can never discover them unless and until they happen. These are the true Black Swans, which we could not predict with even the best risk process. Risk management cannot help us here, since it only targets uncertainties that can be seen in advance and which we can prepare for or address proactively.

If we cannot use risk management to address Black Swans in advance, is there anything else we can do? At the strategic level, business continuity can help us deal with “unknown-but-unknowable unknowns”. This approach identifies areas of vulnerability and ensures that we build in resilience and flexibility so that we can cope with the impact of the unexpected, wherever it comes from. Business continuity also looks for early warning indicators or trigger events to tell us that something is different from normal. Finally it uses environmental scanning to help us discover potential Black Swans before they strike. It is possible to apply this at other levels in the organisation, including for projects and programmes or at operational level, creating an “enterprise-wide continuity” approach.

The Black Swan is a valuable concept that warns us to expect the unexpected. The only certainty is uncertainty, and we know that we will continue to be surprised in all areas of life, including both personal and professional. We should be careful to use the term properly and not dilute it through misuse or laziness. If we mistakenly think that risks with very low probability and very high impact are Black Swans, then we are likely to remain blind to the existence of true Black Swans. That in turn will leave us unaware of how vulnerable we are to genuinely unknowable unknowns.