Risk in history

The earliest records of human history and prehistory include stories of risk and its management. Historical documents, sacred writings, myths and legends – all tell tales of the human struggle against nature, the gods or the odds. Accounts of mankind’s earliest origins describe the urge to break boundaries, go beyond current confines, explore the unknown. Narratives describe risk-taking individuals ranging from Abraham, revered by three of the world’s great religions for his faith in leaving home and setting out to find a new country, through mythological heroes like Jason or Odysseus who undertook epic journeys, to modern entrepreneurs and innovators who change the lives of millions through ground-breaking discoveries and inventions. The broader sweep of human development has included risky phases as hunter-gatherers and agrarians, leading to the establishment of great civilizations like Egypt or the Mayans, to the present day.

Seen from a certain perspective, risk is everywhere. The world we inhabit is unpredictable, strange, incomprehensible, surprising, mysterious, awesome, different, other. This is true from the macro level of galaxies to the exotic nano-realm of subatomic particles, and everywhere in between. Irrefutable evidence forces people to accept the truth that we neither know nor understand everything, and we cannot control everything. Consequently, the word ‘risk’ has become a common and widely used part of today’s vocabulary, relating to
personal circumstances (health, pensions, insurance, investments, etc.),
society (terrorism, economic performance, food safety, etc.) and busi-
ness (corporate governance, strategy, business continuity, etc.).

And it seems that mankind has an insatiable desire to confront risk
and attempt to manage it proactively. Many of the institutions of
humanity could be viewed as frameworks constructed to address uncer-
tainty, including politics, religion, philosophy, technology, laws, ethics
and morality. Each of these tries to impose structure on the world as
it is experienced, limiting variation where that is possible, and explain-
ing residual uncertainty where control is not feasible. Sense-making
appears to be an innate human faculty, seeking patterns in apparent
randomness, applying a variety of templates or heuristics until a work-
able resolution is reached which allows an acceptable degree of comfort
in the face of uncertainty.

As a result, not only is risk everywhere, but so is risk management.
Just as the presence of risk is recognized and accepted as inevitable and
unavoidable in every field of human endeavour, so there is a matching
drive to address risk as far as possible. This has led to a proliferation
of areas where the phrase ‘risk management’ is used to describe efforts
to identify, understand and respond to risk, particularly in various
aspects of business. Indeed it is possible to speak of a multidimensional
‘risk management universe’, with the word ‘universe’ derived from
the Latin words unus (one) and versum (turn), describing a concept
that combines all into one whole. Perhaps it is not too far-fetched to
describe risk management as offering an integrative framework for
understanding many parts of the human experience, if not all.

**Risk in business**

In the world of business, risk management has a special place, being
recognized as a management discipline in its own right, with a broad
supporting infrastructure. Elements of this support include:

- **Academic base**: Many universities and educational establishments
  offer basic and advanced teaching in risk management, at degree,
masters and doctoral levels, and both theoretical and applied
research programmes are also available.

- **Professional bodies**: Many professional societies exist specifically
to promote and support the discipline of risk management. Some
of the most prominent are listed in Table 1.1.
Qualifications: A range of examinations and qualifications are available for the risk professional, offered by academic institutions and professional bodies, though there is no clear consensus on a single certification which is recognized across all industries or countries.

Literature: In addition to the wide range of national and international risk management standards and guidelines (see Table 1.2),
<table>
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<tr>
<th>Reference/title</th>
<th>Standards body/publisher</th>
<th>Date</th>
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<tr>
<td>CP142 Operational Risk Systems and Controls</td>
<td>Financial Services Authority, London, UK.</td>
<td>2002</td>
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### Table 1.2 Risk management standards and guidelines (continued)

<table>
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<tr>
<th>Reference/title</th>
<th>Standards body/publisher</th>
<th>Date</th>
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<tbody>
<tr>
<td>A Risk Management Standard</td>
<td>Institute of Risk Management (IRM), Association of Insurance and Risk Managers (AIMIC) and National Forum for Risk Management in the Public Sector (ALARM), London, UK.</td>
<td>2002</td>
</tr>
<tr>
<td>Continuous Risk Management Guidebook</td>
<td>Software Engineering Institute (SEI), Carnegie Mellon University, USA.</td>
<td>1996</td>
</tr>
<tr>
<td>Enterprise Risk Management – Integrated Framework</td>
<td>The Committee of Sponsoring Organizations of the Treadway Commission, USA.</td>
<td>2004</td>
</tr>
<tr>
<td>New Basel Capital Accord – Consultative Document</td>
<td>Basel Committee on Banking Supervision, Switzerland.</td>
<td>2001</td>
</tr>
<tr>
<td>Risk Analysis and Management for Projects (RAMP) 2nd edn.</td>
<td>Institution of Civil Engineers, Faculty of Actuaries and Institute of Actuaries/Thomas Telford, London, UK.</td>
<td>2005</td>
</tr>
</tbody>
</table>
there are a number of refereed journals covering the topic, as well as a huge variety of books on various aspects of risk.

- **Tools**: Software vendors offer a wide variety of tools to support all aspects of the risk process, as well as specialized tools for particular applications. There is also a growing market in enterprise risk management solutions, offering an integrated approach to managing risk across the organization. The current generation of risk tools have powerful functionality, good user interfaces and increasing integration capability.

- **Consultancies**: Solution providers also offer risk management support, allowing clients to benefit from their expertise and experience, and sharing best practice thinking and practical implementation.

Part of the recognition of risk management as an important management discipline has been the development of standards and guidelines which aim to capture and describe ‘best practice’. These are increasing in number, with some aiming to address risk management in its broadest sense while others have more limited scope. Some of the most widely used are listed in Table 1.2. The problem with having such a wide variety of ‘standards’ is the lack of ‘standardization’! The standard originally described a flag carried onto the battlefield to provide a rallying-point for the troops in the midst of the conflict. Having more than one standard in such circumstances would be a recipe for disaster. Yet in the professional arena it seems perfectly acceptable to have many standards in the same field, dividing the troops who rally to one or another, and leading to confusion and lack of focus.

**Purpose and structure of this book**

There seems little doubt that risk management has been part of human activity for a very long time, and it is today a vital component of business. As a result, anyone asking the simple question ‘What is risk management?’ will not find a simple answer. Hence this book.

Even the most cursory exploration reveals a huge variety of differing perspectives, all claiming to represent the best way to address risk management. In fact risk management is not a single subject at all; it is a family of related topics. Application of risk processes has reached ever further across the boundaries of business. Risk management is not only practised formally in most industries, in many countries, and in
both government and the private sector, but it also plays an important role at all levels in organizations. Types of risk management found in business today include:

- strategic risk management;
- corporate governance;
- financial risk management;
- business continuity and disaster recovery;
- reputational risk management;
- risk-assessed marketing;
- operational risk management;
- project risk management;
- environmental risk assessment;
- legal and contract risk management;
- technical risk management;
- fraud risk management;
- counter-terrorism risk management.

Even this long list is not exhaustive, as new and specialized applications are found in different areas of business. There are many common elements shared by these different types of risk management, but each has its own distinctive language, methodology, tools and techniques. They vary in scope from the broadest application to very specific areas of risk. They are at different levels of maturity, with some types of risk management being quite recent developments while others measure their history in decades. But each is important in its own way, representing part of the response of business to the uncertain environment within which it operates.

This book brings together leading experts from various risk management fields to share key insights into what makes their part of the risk management universe unique. While it would not be possible to include every aspect of risk management in all its diverse forms without making this a very large volume indeed, the main application areas found in most businesses are covered here. Each contributor describes current best practice in his area of expertise, as well as outlining areas for future development. Following this unique guided tour of the main dimensions of the risk management universe, the book concludes with a final integrative discussion which attempts to draw the threads together, identifying underlying themes which unify all types of risk management, and setting the scene for new developments to maximize the effectiveness of risk management in all its diverse areas of application.
As a result, this book has something for everyone: business leaders who need to know where their risks are coming from and how they can be addressed; risk professionals seeking a broader and deeper understanding of their subject; lay people interested in developments of a key theme of our time; and teachers and students of business and management. All aspects of life have always been and still are risky, and this guided tour of the risk management universe provides essential insights into how to manage risk in business wherever it arises.

References and recommended reading


