INTELLIGENT RISK

knowledge for the PRMIA community

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Expect the unexpected. Reflect on any ten-year period from a geo-political, economic, social, climate, or technological perspective – unexpected events do occur. Here is a quick review of select unexpected events of the 2000's: (Decade Timeline: The Last 10 Years - 2000-2009, 2009)

- Terrorist attacks on the World Trade Centre and the Pentagon kill nearly 3,000 people.
- Enron goes bust at a cost of $17b; WorldCom collapses after fraud investigation of $3.8b.
- The Euro is introduced into 12 countries within the Euro-zone.
- First cases of a new respiratory disease, SARS, emerges in Hong Kong.
- Facebook is founded; YouTube and Twitter launch; the verb "to google" enters the Oxford English Dictionary.
- Hurricane Katrina hits New Orleans, causing major flooding and loss of life.
- "Black Monday" - Lehman Brothers goes bankrupt; Fannie Mae and Freddie Mac are bailed out by the U.S. government; U.S. announces a $700b bailout package.

Clearly these events were unknown, but not entirely unanticipated; deadly weather, extreme economic swings and new diseases do occur. Our desire to better manage overall risk outcomes should be bolstered by the fact that we can anticipate the occurrence of unexpected risk catalysts.

In his remarks in February 2002, Donald Rumsfeld referenced "known unknowns" (DoD News Briefing - Secretary Rumsfeld and Gen. Myers, 2002):

> *"As we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know."*

Although Rumsfeld was ridiculed by pundits at the time, the underpinnings of his remarks do enjoy relevance in multiple disciplines, including science, sociology, philosophy and project management.

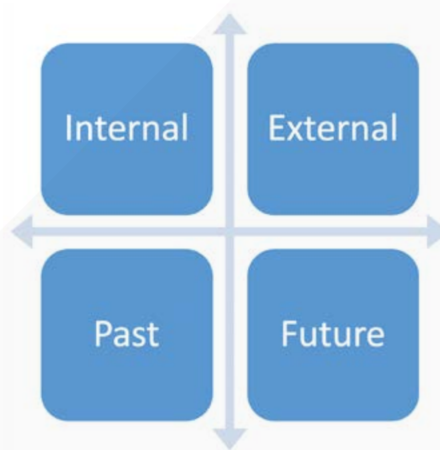
The most fundamental risk management framework effectively deals with the "known knowns," concrete items that are predictable and therefore quantifiable. When we look at events we can expect, but not predict, our ability to quantify is reduced; however, we can work towards productively managing the outcome.

A straightforward and powerful framework to deal with a vast array of "known unknowns" and their potential outcomes contains three steps:

These events are, by definition, impossible to specify; however, they are not impossible to anticipate. One way to project the types of occurrences (and their related impact) is to look within and outside of the organization using past and future filters:

Internal: What sort of unexpected events have hit the organization and what was the impact to operations and financial outcomes? What keeps us up at night relative to our own vulnerabilities?

External: What have other companies experienced in the past, both in our peer group and in other sectors? What are prognosticators saying about possible future disruptive events and trends?



Although defining the potential event is interesting (and, dare I say, fun), a more critical step is assessing and estimating the impact arising from a catalytic event. At the end of the day, what actually happens is less important than the event's potential to destabilize the organization. Here is where high-quality business continuity plans can come into play. Although most plans are predicated on certain events, the true driving force behind a plan is tackling how those events may impact the organization.

In the final part of the framework, it is essential to articulate a range of responses to the event outcomes. At this point the "known unknown" converts to a "known known." Although business continuity plans can inform the discussion, unexpected events often cause deeper disruption or greater loss because they are outside our normal paradigms in terms of potential impact. Consequently, scenario planning should be amped up to include how certain risk factors may conspire to simultaneously work against us. The response may need to be equally integrated.

Rumsfeld also referenced "unknown unknowns" – the most dangerous risks as we cannot manage a risk of which we are unaware. These events are not expected because there has been no prior experience or other basis for expecting them. Becoming aware of these risks over time occurs through discovery, a process supported by a strong risk management framework. In turn, this conversion to either "known unknowns" or "known knowns" allows for risk management through the corresponding analytical and response frameworks.

A solid risk management framework and a comprehensive business continuity plan are essential to building organizational readiness and resilience. Think about what can happen, project how it can impact your organization, and focus on how you will respond to ensure your preparedness for that next unexpected event – whether known or unknown.

references

1. Decade Timeline: The Last 10 Years - 2000-2009. (2009, October 19). The Guardian.
2. DoD News Briefing - Secretary Rumsfeld and Gen. Myers. (2002, February 12). Retrieved from U.S. Department of Defense: https://archive.defense.gov/Transcripts/Transcript.aspx?TranscriptID=2636

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