

## **Risk is good - learn to manage it**

By Graeme Philipson  
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One of the most exceptional business books of recent years is *Against The Gods - The Remarkable Story of Risk*, by economic historian Peter L. Bernstein, who tracks the evolution of our understanding of the concept of risk, particularly as it pertains to business dealings.

Risk is with us in everything we do. Virtually every decision we make every day weighs up alternatives and their possible consequences. Should we eat oysters? Will we cross against the lights? What are the consequences of putting off that phone call until tomorrow?

Understanding the nature of risk versus return is an integral part of human life. We make investments of time and money in the hope that the probability of a return outweighs the possibility of failure.

Often we rely on no more than gut feel. Bernstein's book traces the discovery of the laws of probability by Fermat and Pascal, and the increasingly sophisticated methods employed to calculate the chances of success and failure. The insurance industry has made this an art form, but as HIH illustrates, gambling is not confined to the casino.

The concept of risk is particularly suited to an understanding of the IT industry, and in particular the nature of IT projects. Many studies have shown that large computerisation projects often fail. Consultancy Aberdeen says 90 per cent of all IT projects are delivered late. Gartner says half are rolled back. Giga says 40 per cent of software projects fail to meet their business objectives. And in one widely quoted report, the Standish Group says 15 per cent of ERP - enterprise resource planning - implementations are never completed or not used.

Examples are not hard to find. CSR lost tens of millions of dollars correcting problems with its ERP implementation in the late 1990s. New Zealand's Fletcher Challenge had to change its entire IT architecture to fit in with its new ERP system, and Melbourne's RMIT University mismanaged virtually every aspect of a \$47 million ERP system in 2001. Centrelink's botched implementation of a knowledge management system is still in the news.

It is astonishing that the principles of risk management are not more often applied to large IT projects. Often they are complex, involve millions of dollars and are integral to the organisation's success. Yet only the most basic risk management methodologies, if any, are applied.

There are countless examples of IT projects failing, yet people begin a new one with no more stringent planning than the belief that it's a good idea and that it will all work out OK. It's so common, there are jokes about it.

You've probably seen those flow charts that outline the six different phases of an IT project: enthusiasm, disillusionment, panic, search for the guilty, punishment of the innocent, and praise and honours for non-participants. As the saying has it: success has a thousand fathers but failure is an orphan. If something goes right, we all like to claim success. But when things turn sour, it's always someone else's fault.

Fortunately, there is an increased focus nowadays on risk management and its application to IT projects. Projects will always fail, because there will always be people who refuse to learn from the past, but there are fewer excuses. The increased focus on compliance issues and corporate governance has rubbed off on IT, and a new discipline of IT governance has come into being.

At least the term is new: IT governance is a fancy term for a formalisation of many sound IT principles that have been around for years. And central to this is IT risk management. There is a large range of software tools and management techniques to help people manage risk in IT projects, but like many things a lot of it comes back to common sense.

One small Australian company has developed an innovative new system for managing IT and related risks.

Sydney-based PicNet has developed RiskShield ([www.riskshield.com.au](http://www.riskshield.com.au)), a computer-based system for identifying and calculating risk in every aspect of an organisation's operations. RiskShield uses some innovative techniques to quantify risks diagrammatically, creating a "digital dashboard" for risk management across the organisation.

RiskShield is a good example of the new breed of risk management tools. The key is identifying, quantifying and managing risk.

We can never get rid of risk, because it is an integral part of life. Without risk, there is no opportunity, and without the endless quest for opportunity business - and life itself - would grind to a halt.

Too many people in the modern world are trying to make risk disappear.

We are surrounded by a host of rules and laws and guidelines that try to protect us from the results of our folly. These rules miss the simple fact that risk is a necessary aspect of existence.

Our job should be to reduce risk and we can manage risk, by proper measurement, by equipping ourselves with as much information as possible, and by learning from the mistakes of the past.

But the only way to eliminate risk is to do nothing, which is itself more than risky - it is the path to oblivion.

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