Entertaining Risk Analysis:
Peter de Jager Presents Valuable Insights with Panache

by M. E. Kabay, PhD, CISSP-ISSMP
Associate Professor of Information Assurance
School of Business & Management
Norwich University, Northfield VT

Peter de Jager has a long history of contributing to the management of information technology. I first ran into him in the early 1990s, when he was one of the first professionals to warn, calmly, that much of the software we were running then was still using two-digit years to represent dates in the 20th century. After the end of 1999, those two digit dates would be 100 years out of sync. This difficulty became known as the Y2K problem. Because of the enormous efforts of people like Peter de Jager and the programmers and their managers who paid attention to the issue and fixed the programs, we all survived the turn of the millennium quite well. And let me say now that I have nothing but scorn for the naysayers who claim that there never was a problem because there was no problem. That’s like denying that replacing broken nuts on a car wheel has nothing to do with preventing the wheel from falling off at highway speed.

But today, I want to draw readers’ attention to an excellent 50-minute lecture available online by Peter de Jager about risk management. “A Ramble through Gambles: A Look at Risk Management” was delivered live on 30 Sep 2010 and the recording is now available for anyone to download free as 38 MB WMV or W4V files with sound and images from his Webinar Central directory. The podcasts are even available free through iTunes.

The Webinar abstract includes this brief description:

Risk Management is, in a word, complicated. Hmm... not strong enough – make that two words, it’s extremely complicated.

It’s complicated because it deals with at least three totally different forms of ignorance. We also need to take the psychology of risk perception into account, something that differs wildly from one person to the next. On top of this mess, we can throw on the social culture surrounding risk. The result? A topic convoluted enough for a lifetime’s worth of study.

For all the above reasons and ones I haven’t mentioned yet, there is no consistent measure of what is a ‘good’ risk versus what is a ‘bad’ risk. A risk I am more than willing to make, might be something that you’d never take. More frustrating? The risks I assume in a specific endeavour are NOT the same risks you assume when you attempt the exact same action!

The lecture starts with a clear example of applying expected value theory to optimal allocation of resources by providing a simple example with simple probabilities. He shows that if we know something about the threats we face and we have an expectation of reducing those threats, we can start by reducing the largest threat and then iterate by locating whichever threat is the current largest for the next round of reduction.
Next, in “Getting out of the Pit,” he points out that often we lack exact awareness of the risks involved in a particular process and suggests three frameworks for brainstorming about risks. He starts with analysis of strengths, weaknesses, opportunities and threats (SWOT); political, economic, social, technical, legal and environmental (PESTLE) analysis; and business, political, economic, social, and technological (BPEST) issues.

I must add here that readers interested in more efficient brainstorming than the usual markers-and-papers-on-the-wall technique can read about Computer-Aided Consensus™ on my Website> http://www.mekabay.com/methodology/index.htm

The speaker points out that one of the problems we face is that all of us systematically downplay risks; we consistently tend to underestimate the risks that apply to us. We also overestimate our ability to handle problems (e.g., everyone says they are above-average drivers) and we have difficulties coping with multiple risks. For example, if there are false alarms that are waking people up in the middle of the night, sometimes people turn off the alarms on the grounds that lack of sleep increases error rates – but the lack of alarms also allows real problems to go unannounced.

De Jager emphasizes that ordinary people have flawed perceptions of risk and probabilities. When risks are framed in terms of negative results, they can seem worse than exactly the same risks described in terms of the positive results. Thus the way risks are described strongly influences the way people evaluate those risks and management is at risk of being manipulated through language alone.

For an excellent tutorial on the framing of risk, see “2845 ways to spin the Risk”< http://understandinguncertainty.org/node/233 > by the “Winton programme for the public understanding of risk”< http://understandinguncertainty.org/about > of the Statistical Laboratory at the University of Cambridge in England.

I won’t go on describing the content of his webinar because I don’t want to steal his thunder. I have already recommended this lecture to students in my current information assurance course< http://www.mekabay.com/courses/academic/norwich/is340/index.htm > and our current capstone seminar on strategic applications of information technology< http://www.mekabay.com/courses/academic/norwich/is455/index.htm > at Norwich University.

I strongly recommend that you listen and watch for yourself. And if you use the material for in-house training in your company, donate something to the team! There’s a button on the Web page that lets you pay whatever you deem appropriate via PayPal.

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