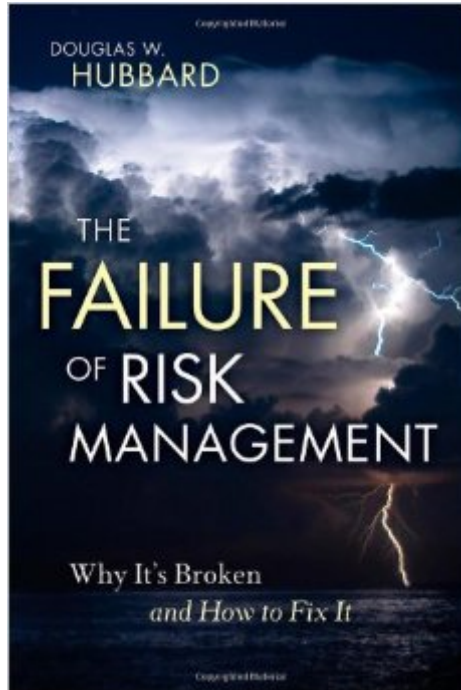


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# The Failure Of Risk Management: Why It's Broken And How To Fix It



## Synopsis

An essential guide to the calibrated risk analysis approach *The Failure of Risk Management* takes a close look at misused and misapplied basic analysis methods and shows how some of the most popular "risk management" methods are no better than astrology! Using examples from the 2008 credit crisis, natural disasters, outsourcing to China, engineering disasters, and more, Hubbard reveals critical flaws in risk management methodsâ and shows how all of these problems can be fixed. The solutions involve combinations of scientifically proven and frequently used methods from nuclear power, exploratory oil, and other areas of business and government. Finally, Hubbard explains how new forms of collaboration across all industries and government can improve risk management in every field. Douglas W. Hubbard (Glen Ellyn, IL) is the inventor of Applied Information Economics (AIE) and the author of Wiley's *How to Measure Anything: Finding the Value of Intangibles in Business* (978-0-470-11012-6), the #1 bestseller in business math on . He has applied innovative risk assessment and risk management methods in government and corporations since 1994. "Doug Hubbard, a recognized expert among experts in the field of risk management, covers the entire spectrum of risk management in this invaluable guide. There are specific value-added take aways in each chapter that are sure to enrich all readers including IT, business management, students, and academics alike" â "Peter Julian, former chief-information officer of the New York Metro Transit Authority. President of Alliance Group consulting "In his trademark style, Doug asks the tough questions on risk management. A must-read not only for analysts, but also for the executive who is making critical business decisions." â "Jim Franklin, VP Enterprise Performance Management and General Manager, Crystal Ball Global Business Unit, Oracle Corporation.

## Book Information

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## Customer Reviews

How do we know if our risk management methods are working? Would we notice if they were not working? What are the consequences if they are not working? These are the three basic questions that Douglas Hubbard asks in his book *The Failure of Risk Management*. In this book Mr. Hubbard lays out the basics of risk management and explains why many risk management methods are worse than useless. He also provides some ideas and first steps to fix the problem. Here's a brief walk through 'The Failure of Risk Management': Part I introduces the history of risk management and the problems with modern risk management methods. Independent events, for instance, are often times not independent at all. This common-mode failure is unaccounted for by many managers, yet can be devastating in an emergency. Part II of the book goes in depth with some of the problems and failures of risk management, and to me was the most interesting part of the book. Chapter 4 is called *The "Four Horseman" of Risk Management*, and describes the differences between what the author considers the four main classes of risk managers. The four classes are actuaries, "war quants," economists, and management consultants. Each group has distinctly different methods and areas of expertise, as well as different levels of validation. Chapter 5 is about how risk should be defined, and why different people may actually be talking about different things when they discuss volatility and risk. Chapter 6 breaks down why humans are not good at subjective methods (which lays the ground work for later chapters introducing quantitative methods). There are a few "calibration" tests available for you to see how overconfident you are in your decision making.

I have been involved in business consulting, investment management, business valuation and corporate governance for most of the past 25 years, and I can say without hesitation that Doug Hubbard's book on *The Failure of Risk Management* is an outstanding and elucidating work. I have never been a risk manager per se, but I have frequently been deeply involved in risk assessment and risk management activities, so I do have firsthand experience in this topic. This book is an eye opener from the outset. In Part One of his book ("*An Introduction to the Crisis*") Hubbard begins with fundamental, obvious questions about risk management that everyone (not just risk managers!) should be asking. For example: How do you know that your risk management program is effective? Would anyone in your organization know if your risk management program didn't work? (...and how would they know - and define - that it wasn't working?). These are very simple, obvious questions,

yet I have never heard them asked by management teams or even members of boards where I have served as director. Alas, there is a huge "placebo effect" in so much of what passes for risk management nowadays - perhaps that is why it is so popular. For example, consider the following: If risk management programs really do work, then it seems logical to assume that companies in a given industry with a (self proclaimed) "highly effective" risk management program would show greater shareholder returns, less earnings volatility, and better safety and regulatory compliance records than other companies in their peer group who lack such a program. Yet there appears to be no valid evidence that current risk management practices, taken as a whole, serve to improve overall corporate performance. The evidence just isn't there.

This book is a must for every professional, undergraduate, graduate or post-graduate student dealing with risk management. Douglas Hubbard manages to combine proper mathematics with the basics of measurement and still keeping things within reach of an audience that does not necessarily has to have too much mathematical skills. Speaking of experience, I started as a PhD in Physics using Monte Carlo for simulating Magnetic forces in semiconductor interfaces. Then I transposed these methods more than 20 years ago to medical equipment, did some work in safety, environment, food hygiene and finally ended up in innovation and entrepreneurship. All of these tracks have an intensive relation with risk. I saw many of the errors (and even more) in risk management as (nearly literally) described in this book. So the level of relevance is there. The treatment in three parts is well done, the structure is both professional and inviting to read more. The skill Douglas Hubbard apparently has in combining almost prosaic phrases with good scientific content, makes this book to be a reference book and a novel at the same time. An example for many of us (including me) that do not have this skill. I applied already formerly likewise approaches but with the reading of the book, I succeeded in leaving some very heavy (and expensive) calculation programs for the marvelous and illicit Excel sheets Douglas is posting on his website, at least for some applications. As a tutor I take the book of Douglas and leave the "heavy programs" for later on. This "step up" is amazing for students as they get gradually into the complexity of the matter. I read some of the negative critics and think some of the people did not read the book properly.

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