

Anbang Qi's reflections on David Hillson's Risk Doctor briefing

According to David Hillson, 'Now the issue of the ISO31000 "Risk management — principles and guidelines" standard looks likely to reignite the definition debate, and this time the issue is equally fundamental' (Hillson 2009). Yes, he is right. Especially, for the Chinese people, they have their own definitions for risk and risk management from their traditional management philosophy and their definition for these are different to that of Westerners.

According to traditional Chinese management philosophy, everything in the world is changing, either rapidly or slowly. Change makes the world full of risks and human beings need to continually manage risks. They think risk is not an 'effect', or an 'uncertainty', but the result of changes. All of the traditional management philosophy of Confucian, Taoist, and Mohist schools of ancient China originated from the three versions of the *Book of Change* (a book of risk and risk management) and these three traditional Chinese management schools all believed that management means to manage the changes of all things in the world.

In Chinese characters, risk is not one word (like in English) but two characters written as '风险'. The Chinese character of '风 (wind)' means the 'reason for the change' since the wind can blow (or stop to blow) in any direction, and that can cause rain, snow or storms, or even floods and disasters. The Chinese character of '险 (danger)' means the 'the result of the change' because changes can result in a opportunity or some kind of loss.

At Nankai University, we have done a lot of research on risk and developed our own definition of risk based on traditional Chinese management philosophy. The research shows that risk can be defined by the following equation. Risk equals the product of 'probability' and 'opportunity/loss'. Here, 'probability' is the likelihood of changes to the environment and conditions of a project or a thing (Qi 2008). And 'opportunity'/'loss' is the result of these changes.

$$R = P \times (O / L) \quad (1)$$

P—Probability, if P=1, then it is known that things are certain, if P<1, then it is known that some of the things are uncertain, if P=?, then it is unknown if there are things that are uncertain.

O—Opportunity, L—Loss

This definition contains two vital parts. First, risk is caused by changes of the conditions and environment that make a thing become uncertain and this uncertainty should be expressed as a probability. Second, risk can cause a negative result that might probably bring about loss for an organisation or a person, or risk can result in a

positive result that might probably bring about some opportunity to an organisation or a person.

According to traditional Chinese management philosophy, risk management is not only to manage the results of the risk, but also to manage the changes that cause the risk. In Chinese writing, risk management is not two words but four Chinese characters written as ‘风险管理’. The Chinese character of ‘管 (govern)’ means to control the changes and their resulting risks. The Chinese character of ‘理 (study)’ means to search and find out the changes and their results, enabling the changes to be controlled or governed. Each of the traditional management philosophies of the three schools of ancient China developed their own risk management methodology and methods that focused on controlling or governing changes.

We have also done lots of research on risk management based on traditional Chinese management philosophy. Our research shows that risk management can be defined using the following equation (Qi 2011).

$$RM = P \uparrow \times (O \uparrow / L \downarrow) \quad (2)$$

RM—risk management, $P \uparrow$ --increasing the probability, $O \uparrow$ -- enlarging the opportunity, $L \downarrow$ -- decreasing the loss

This definition contains three vital parts. First, risk management means to obtain more information for increasing the probability and changing the $P=?$ into $P<1$ or, further, for changing the $P<1$ into $P=1$. Second, risk management must increase the opportunity provided by changes in order to get more benefit from the changes and risks. Third, risk management must decrease the loss caused by changes, or even convert the loss into opportunity. In fact, all management and administration are considered to be a kind of risk management because if everything in the world is certain (cannot be changed), there will be no need for management or administration.

There are some differences between the Chinese and Western perspectives of risk and risk management. Typical Western definitions include ‘Risk is the effect of uncertainty on objectives’ or ‘Risk is an uncertainty that, if it occurs, will have an effect on objectives’. But the Chinese believe ‘Risk is the change that can result in some opportunity/loss’. We think risk management should govern or control the change and the result of the change in order to avoid loss and to increase the benefit from the risk.

Of course, we also hope that the ISO31000 definition can become more exact through these discussions and debates.

References

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