

8.2 Science vs. Practice

The Ultimate Debate on What Really Works in Corporate Risk Management

13.05.2025



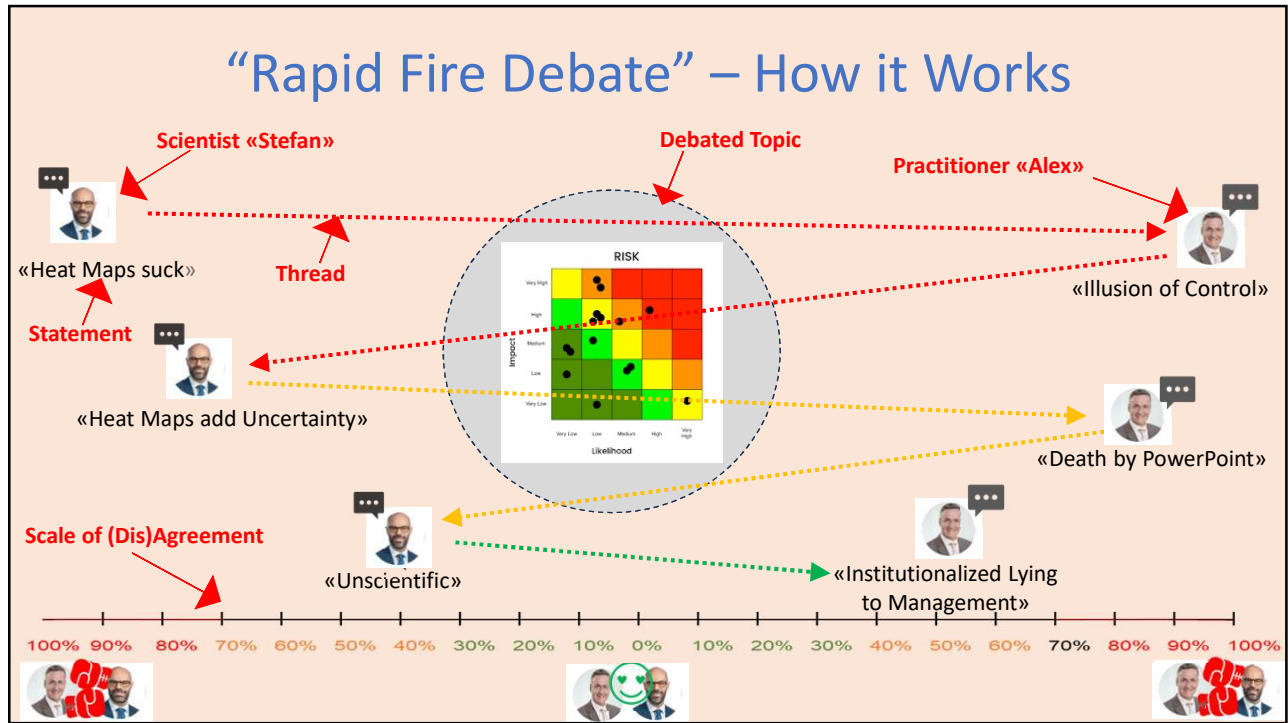
Prof. Dr. habil. Stefan Hunziker
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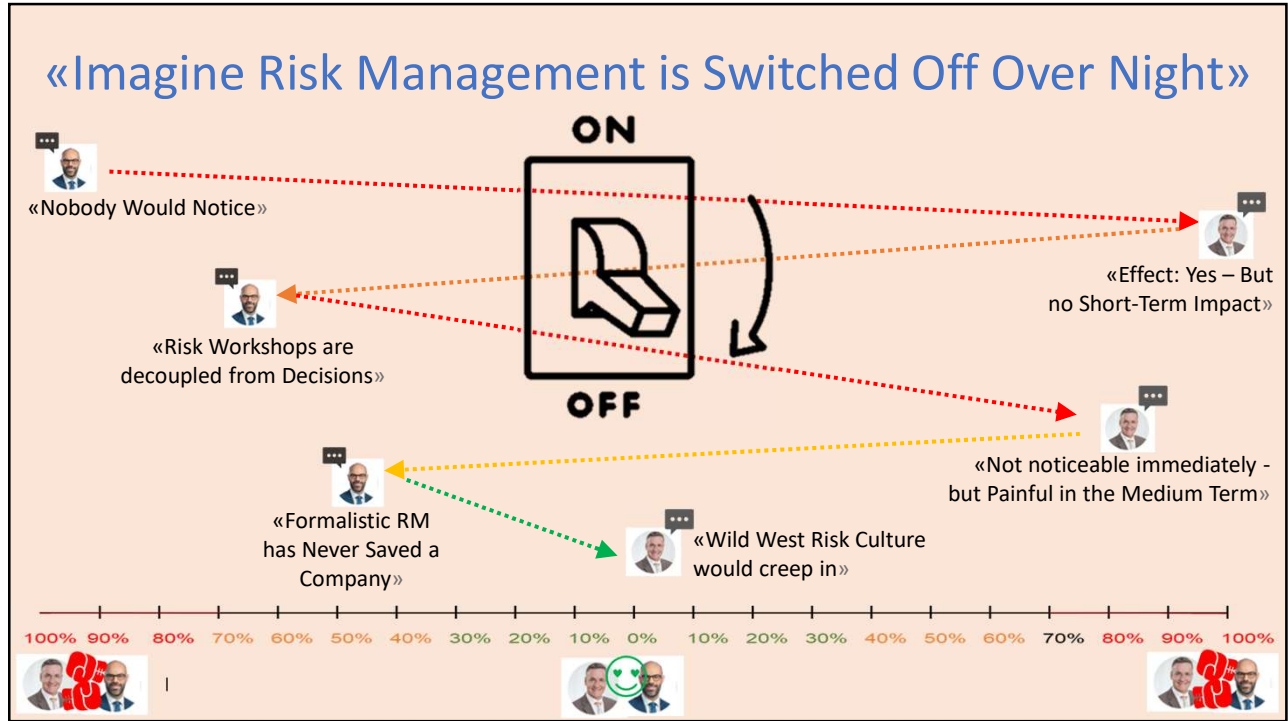


Alexander Hilsbos
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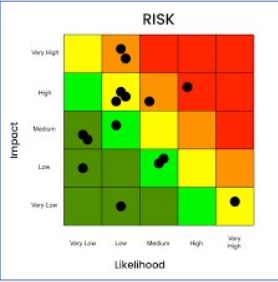
Agenda

1. Introduction to the Rapid Fire Debate
2. The Debate On What Really Works
3. Take Away Messages and Throw Away Messages
4. Your Questions, Maybe Answers
5. Our Question to You





The Art Of Assessing Risks OR “Probability and Impact – That’s All You Need”



RISK

«Heat Maps Create an Illusion of Comparability»

«Risks Can't be Bubbles»

«Value Destruction & Waste of Time»

«It is Proven Not to Work»

«It is Institutionalized Lying to Management»

«Un-learning is Harder than Learning»

100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%



Show Of Hands Please!







(I think it was a tie — both debaters made persuasive points)

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“How Can You Tell the Company's Overall Risk Exposure?”

Histogram of Simulation Runs

«We don't know Exposure Until We Aggregate Risks»

«Averages lie. Distributions reveal.»

«Management has no Idea – And is Happy with that»

«Simulated Results are Extremely Hard to Explain in Only 5 Minutes»

«Quantification earns Respect, but Narratives Build Trust»

«There is No Other Way»

100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Show Of Hands Please!

I think the Scientist's arguments were more convincing!

I think the Practitioner's arguments were more convincing!

(I think it was a tie — both debaters made persuasive points)

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The “Big Five” Risk Management Failures

Many of the methods and approaches that are used in practice today are neither scientifically supported nor refuted.

- **Failure 1:** Believing risks are **predictable**
→ ignoring **Ludic Fallacy, complexity theory**
- **Failure 2:** Mistaking qualitative analysis for **objectivity**
→ ignoring **framing theory, sensemaking theory**
- **Failure 3:** Assuming people behave **rationally**
→ ignoring **new expectation theory, cognitive psychology**
- **Failure 4:** Thinking risk analysis needs no **technical skill**
→ ignoring **probability theory, statistics**
- **Failure 5:** Detaching risk management from **decisions**
→ ignoring **decision theory and quality**



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Paradox: Many Risk Management methods have been proven **not to work, but are nevertheless used (and vice versa!)**



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Why the Paradox Persists – 4 Reasons



1. Appeal Over Evidence

Methods survive not because they work, but because they feel good, or are easy to sell.

2. Time Lag Between Science and Practice

It takes decades for evidence-based insights to trickle into corporate routines.

3. Consulting Industry Incentives

Consultants often favor scalable tools, not those that challenge client comfort zones.

4. Decision Inertia and Groupthink

Changing risk practices is itself risky. So most don't.

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Some Models are Just Past Their Prime

homo oeconomicus

- Full availability of all data, options, and outcomes
- «Looking under the lamppost»
- «small world problems»
(Leonard J. Savage)



**Good-bye and
Good Riddance!**

homo heuristicus

- Systematic irrationality
- «Adaptive strategies» (G. Gigerenzer)
- Biases and Heuristics
- Efficient problem-solving strategies
- Decision making under Uncertainty
«The future is already here –
it's just not evenly distributed!»
(W. F. Gibson)

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2. **Time Lag Between Science and Practice**
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Which of these four drivers do you see most often in your organization ?



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What to Take Away — and What to Throw Away

Homo Oeconomicus reads risk reports. Homo Heuristicus decides whether to act on them.

Conceptual Focus	 Throwaways	 Takeaways
Setting	"Small worlds"	"Wicked Problems"
Decision-maker	Homo Oeconomicus	Homo Heuristicus
Assumptions	Full rationality, perfect knowledge	Bounded rationality, embrace ambiguity
Risk Logic	Prediction and precision	Reduce uncertainty, allow judgment
Favored Concepts	Heat maps, thresholds, fixed %-values	Ranges, distributions, scenarios, unknowns
Behavior	Optimal, consistent, unbiased	Imperfect but improvable

What is one risk management belief you'll take away — and one you'll throw away?

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The Moral of Our Debate?

"The fairy tale is the only poetic form in which **evil disappears forever** in the end."

Professor em. Kristina Wardetzky, fairytale researcher, Berlin University of the Arts

Can risk management be a fairy tale? The **ingredients** are readily available...

- Risk Management without science is not worthwhile!
- Embrace science as the foundation for sound risk management
- Look beyond the "RM bubble" and learn from decision theory, psychology, and complexity science
- Challenge what's in the standard and experiment with what actually works
- Put humans first: Uncertainty is real, biases are real, and people make 'irrational' decisions



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The story can end happily, but only if we write it with science.

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Our Question to You

What will you do tomorrow, back in your office ?

- Fire the Risk Manager
- Hire more but different Risk Managers
- Both of the above
- None of the above

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Get in Touch



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