Topic of the 42nd St. Gallen Symposium

Facing Risk

The next St. Gallen Symposium (3–4 May 2012) will be under the topic "Facing Risk". With its unequivocal connection to the world of business, this topic addresses the basic human condition of living in a world dominated by risk. The topic's wording calls for an awareness of the fact that risks are involved in any action taken and in any decision made and that these risks should neither be denied nor avoided.

One could argue that because risk plays a pivotal part in everyone's professional and personal lives, no urgency is given for an appeal to face risk. However, what can be observed in Western societies is a growing tendency to minimise risk and to shy away from risk-taking whenever possible. On the other end of the scale, new economies over the last two decades have proven that risk-taking leads to wealth and strong GDP growth per capita. Most striking in the old economies is the regulatory environment which leaves little room for entrepreneurial risk-taking. But the problem goes far beyond regulation. It mirrors a growing number of societies and economies that have become deeply averse to risk and at the same time confident of their ability to gain control of the world. This is a delusion with far-reaching consequences. First, the lack of dynamism that follows has profound implications for the economy and its ability to innovate. Then, risk aversion in politics has led to the point of self-deceit, ignoring the fact that public debt, underfunded pensions or a lack of global competitiveness will one day take its toll. Third, as industrialised economies achieve a high level of wealth per capita and have greatly enlarged the social safety net, fewer people find it necessary to take on risk. In saturated societies upward potential is increasingly limited. Against this backdrop, "Facing Risk" shall convey a positive attitude towards risk and risk-taking, thus setting forth the potential that arises when risks are recognised as a prevailing reality.

Risk is not about the unknown or complete uncertainty, but about probabilities that can be assigned to it. Risk is, in the words of the famous economist Frank Knight, measurable uncertainty. It all starts with knowing how future risks can be detected and consequently assessed (Cluster A: Detecting risks). Then it will be crucial to get to the bottom of the question as to why risk aversion is a wide-spread occurrence (Cluster B: Risk aversion). Further, it will be important to show the set of risks we are dealing with today, and for which risks a common understanding exists (Cluster C: Emerging risks). Finally, once identified and recognised, the question arises as to how to manage risk (Cluster D: Managing risk).

CLUSTER A: DETECTING RISKS

For business people and politicians alike, detecting risks is of crucial importance when it comes to securing competitive advantages and taking decisions of long-term strategic relevance. But more often than not new risks are only faintly outlined against the horizon. And usually we can only see what we are told to perceive. The methodological tools that allow an early detection of what will shape future trends are therefore pivotal. But how can we detect and assess risks in a global environment that is characterised by extreme uncertainties, high volatility and market players that fail to play according to the rules? Thus, this cluster focuses on the set of tools available today to businesses and politics in order to capture the essence of future risks.

CLUSTER B: RISK AVERSION

In saturated societies, people tend to minimise risks and even shy away from taking risks at all. Among the many reasons for this attitude some stand out: the more tangibles that are created, the more there is to lose; the more social security provides a safety net, the less one has to think about the future; the more regulations and rules that govern our life, the more we have to care about how to comply with them. Or to put it in general terms: the fewer incentives are created for those who take risks, the less people will find risk-taking an option worth considering. Be there legal, political, economic or even psychological reasons, risk aversion has the potential to endanger innovation, social cohesion and growth. Risk aversion, in other words, seems to become a risk in itself. However, as the financial crisis has unmasked, risk aversion would sometimes even be the better strategy. Managing risk, therefore, is all the more the ultimate challenge (see Cluster D).

CLUSTER C: EMERGING RISKS

Speaking of specific risks, there are a set of obvious risks applicable to any economy and society, fast-changing over time, of course, but clearly recognisable as *conventional* risks. Among them, migration, demography, terrorism, pensions or energy security stand out. And then there are those risks – such as climate change or nuclear security – that are essentially controversial, but are singled out by public opinion, the media or political consensus as undisputable. These risks become bigger and harder to assess the more they are banned from an open debate. Finally, there are risks that are prevalent but have not yet penetrated people's minds. For instance, stifling public debt burdens for which nobody is willing to accept the long-term consequences. The same applies to growing non-transparent government power on the global capital markets or rising barriers to world trade in the new form of export protectionism.

CLUSTER D: MANAGING RISK

As much as risks can be avoided, dodged or denied, they are part of life and had better be managed. Moreover, risks should be seen as positive uncertainties and not as unavoidable evils. Managing risk, therefore, is not only about controlling specific risks but most importantly about making risk a productive force. This balance is indeed difficult to achieve. How much regulation is needed? And when does regulation turn into a constraint that holds back individual initiative? On the other hand, entrepreneurial risk-taking fills the gap where no one else has so far come up with a business idea. And showing commitment – in other words, taking a risk – instead of just complying with rules is what drives a business forward. Such productive risk-taking enhances the economy's innovative strength, creating new opportunities, better business solutions and more jobs.

St. Gallen, July 2011