RISK MANAGEMENT IN ACTION?

R.Murray-Webster[1], P.W.Simon[1]

[1] Managing Partner, Lucidus Consulting Limited, United Kingdom

Short Abstract

If risk management is good for us, why don't we do it? This question is at the heart of the paper. The paper looks at the experience of a number of leading companies who have invested heavily in risk management processes and tools, and in training for their people; but yet they fail to reap the benefits of a risk management approach because these knowledgeable people, equipped with appropriate processes and tools, do not actually commit to action.

The paper outlines a range of causes of the problem, and a number of solutions ranging from the behaviours of project managers and sponsors (business leaders) to the nature of the procedural documentation that is in place. All of our observations are firmly grounded in our practical experience when working with major companies, as well as building on leading edge theoretical approaches.

Key words: risk, application, culture, attitude

Paper

Starting Premises

We have two starting premises. The first starting premise is that risk management is important and that:

- Proactive consideration of what might happen in the future is worth the investment in training and in the development of specific processes;

- Modelling of potential future states is worth the investment in tools designed for the process;

- Contingency plans and funding are most usefully based on a good understanding of the inherent uncertainty in any particular plan of action, rather than applying generic guesses (such as +20%) that add nothing to the management of the situation.

The benefits of risk management have already been established and widely published, for example, the set of benefits developed by the UK Association for Project Management in 1996 and published in a variety of places since[1]. This work lists a range of 'hard' benefits associated with project and business success, for example risk management "discourages the acceptance of financially unsound projects" and a range of 'soft' benefits associated with the human impact of working in uncertain situations, for example, risk management "leads to common understanding and improved team spirit". Our experience leads us to specifically claim that an additional key benefit of risk management relates to the topic most commonly labelled stakeholder management. Any project, programme or change initiative needs sustained buy-in from investors, decision-makers and other parties with a vested interest throughout its life cycle.

Securing this commitment requires the uncertainty in the situation to be considered, to reduce the chance that the venture fails to deliver the desired return on investment. Effective risk management enables such commitment.

Assuming therefore that risk management is important, it is necessary to identify what effective risk management looks like; the elements that together enable the desired benefits.

Figure 1 depicts the elements that enable project success, adapting a diagram originally used in the Total Quality Management discipline[2]. This diagram indicates that to achieve success (however that is defined for a particular initiative), the work to be done and the tools and processes used to do the work will only "hold together" if they are joined by the right behaviours as depicted by the terms communication, commitment and culture.
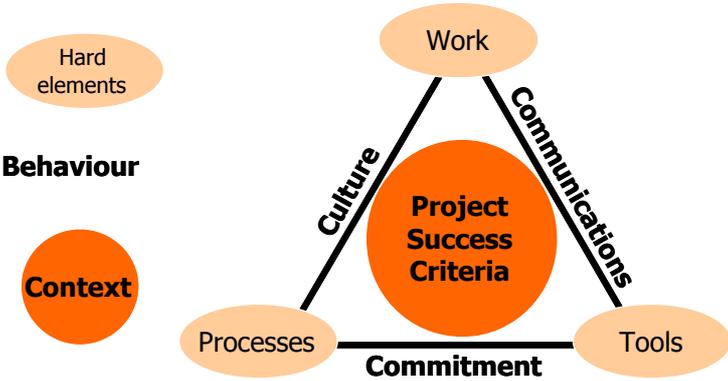

Figure 1: Success combining hard and soft elements

Our second starting premise, therefore, is that effective risk management requires an investment in processes and tools and also in the development of an organisational culture, shared and meaningful within the group concerned, that demonstrates through actions and behaviour that risk management works and is worth the investment.

Case Studies

The experience of four companies, in 2005, is discussed in this section. All the companies are major international players in their sector (financial services, defence systems, drug development and professional services). All the companies have invested heavily in risk management processes and tools and in training for their people; but felt the need to commission our company to provide additional support to them because, despite their investment, they fail to reap the benefits of a risk management approach. They have knowledgeable people who are equipped with appropriate processes and tools; yet risk management is not perceived to be effective in practice.

Table 1 contains a selection of comments given to us by key personnel within these companies. The comments summarise what we found during our work with them.

"Although our risk management processes are good, we don't really insist they are used. We expect project managers to manage risk, but good ones do this intuitively and without the process."
"We have processes that represent best practice" (and they have). "Our difficulty is in getting people from the business to engage with the process. As a result the only people committed to risk management are the risk managers."
"Our risk management processes are boring; we don't really see how they add anything to our work."
"It is difficult to get excited about risk management when the effects of a risk occurring don't really affect us."
"It seems much more relevant to put effort into sorting out those problems that do occur, rather than trying to anticipate what might happen."
"By the time we are filling in our risk log, most of the meaningful risks on the project have already been taken. Our job is to solve problems when they happen."

Table 1: Risk Management in Action? 2005

Assuming these comments are indicative of wider experience, it seems that some of the causes of ineffective risk management are:

- A belief that a formal approach is not needed for competent people, only to support people who are less experienced and/or skilled or one might to protect the innocent.

- An inability to persuade stakeholders that there is benefit from a formal approach.

- A desire for work to be exciting (not boring). "Fighting fires" tends to be seen as more exciting than work to prevent them in the first place.

- A difficulty in engaging with situations where there is little perceived personal relevance.

- A belief that risk management processes deliver too little, too late.

This suggests that work remains to be done on both the "hard elements" of risk management, for example ensuring processes are relevant and deliver timely results without excessive bureaucracy and on the "soft" or behavioural elements, for example ensuring that people understand and are committed to making the processes work. Alternatively, perhaps the reality of risk management in action as described in Table 1 points only to a need to improve the culture for risk management in these organisations on the basis that if people are really committed, they will make the processes work, or change them into something they will use.

Risk Management Culture

Culture has been described in various ways in a number of seminal texts. Writing in 1985, Schein[3] describes culture as "the way in which a group of people solves problems and reconciles dilemmas".

Using this definition therefore, a culture that supports risk management would be one where groups of people see the benefit of risk management in solving problems and reconciling dilemmas. Adopting a proactive risk management approach of course is perfectly possible for an individual to do, intuitively and without the aid of formal processes. However, the very nature of managing change within organisations demands for groups of people to take this approach, and this is difficult to do without some degree of formality.

So the challenge for organisations is to find a way of engaging groups of people with risk management as a central part of how that group solves problems and reconciles dilemmas. Developing more and/or better processes is unlikely to be the answer. The answer is more likely to lie at the heart of attitudes that are held towards risk taking itself, and that are held towards risk management as an effective way of dealing with those uncertainties.

In their book, Understanding and Managing Risk Attitude, David Hillson and Ruth Murray-Webster[4] examined the notion of risk attitude for individuals and groups. They explored a range of factors that bias attitudes and the choices that people make, and suggested ways in which individuals could change their attitudes if so desired. The authors were clear in defining risk attitude as a chosen response to risk (a specific risk-event or risk in general) with the choice influenced by perception of the situation in question. The notion of choice is central. People may not feel they overtly choose an attitude, resorting to habit or some other sub-conscious response, but they are nevertheless making an implicit choice.

Using this definition, individuals or groups could choose to hold a positive attitude to a certain risk, for example, choose to support a risky course of action that would lead to a desired outcome, and at the same time hold a negative attitude to a different situation, for example, choose to avoid a risky course of action where the pay-off of taking the chance was not perceived as good enough. The fact that everyone holds a range of different risk attitudes at any one time suggests that risk attitudes are not right or wrong in absolute terms, but are situational responses that may be appropriate, but may also be inappropriate in the circumstances.

In the case studies cited, the chosen responses to risk are, in the main, to do nothing, i.e. to choose to take the chance that the uncertainty will occur and deal with it then rather than try to proactively manage them. This would typically be described as a risk seeking attitude to threats, and a risk-averse attitude to opportunities. From our work within these organisations we understand that although the action (to do something or nothing about risk management) is taken by individuals, the risk attitude seems to be held by groups of individuals who appear to share, or be comfortable with the same response to the risk in their situation. This may be because the organisational culture supports reactive issue resolution (sometimes referred to as "hero management") rather than proactive risk management; or perhaps because the

perception of whether a situation is risky or not is biased by a lack of understanding of the potential outcome should the risk occur, or some other source of personal or group bias. Understanding risk attitude is a many-faceted challenge. It is understandable for individuals, but group risk attitude is more difficult.

Our company, in collaboration with Risk Doctor & Partners are in the early stages of some formal research into group risk attitude designed to provide more in-depth insight into collective risk taking. Our research is designed to test the influence of a range of factors on group risk attitude within decision-making groups. Until that is available however, we are left with trying to find a way of moving organisations that appear serious about risk management to a position where they put their investment into **action**.

Committing to Action

When something is part of a culture, deeply ingrained and sub-conscious, it is no longer an option, but part of "the way things are done around here". Modifications to already robust, nearing 'best-practice' processes and tools, or to providing additional education and development for people cannot be the answer. The challenge is to develop behaviours that demonstrate that risk management is central to the way the organisation works without it being seen as mechanistic and boring.

What behaviours do people need to demonstrate to build a culture for risk management? Some suggestions are shown below:

Project Sponsors/Business Leaders

- Talk to stakeholders about their perception of the project, the things they are assuming will happen, the things that may have a negative effect on objectives and the things that could make the project even better.

- Document these risks in a risk register during the preparation of the business case, and as a result show it is important to the project manager and project team by being a positive role model.

- Expect many threats to exist so support the identification of these. It isn't negative, it's sensible.

- Never "shoot the messenger". If a member of your team identifies risks (threats) that they cannot resolve then thank them and don't make them feel foolish or else they will be afraid to do the same in the future.

- Encourage people to identify opportunities and add these to the risk register too. Actively doing this will show that effective risk management is not just about avoiding bad things, but enabling good things.

- In support, do not reward the "heroes", the people who refuse to plan and rely on super-human efforts to resolve problems when they occur.

- Demand an understanding of why problems that must be resolved (project issues) and change requests have occurred. Could the issue or change have been avoided?

- Measure the cost of issue resolution. It may be that with a little effort you can demonstrate the financial benefit of proactive risk management?

- Through review, try to find examples of where there has been a positive benefit from proactive risk management. Celebrate the success of proactive management.

Project Managers/Team Leaders

- Make risk management a "daily exercise". Use the language of risk management in your every day communications with stakeholders and your project team. Don't confine risk identification to formal workshops, talk to people about their views and how these might affect objectives. Add these uncertainties to the risk register as soon as they are raised.

- Hold a continual, up to date view of the top five threats and top five opportunities for your project. What circumstances might help you deliver a quality product earlier or cheaper? What circumstances are the show-stoppers in terms of threats to the stated success criteria? Make it your business to be able to give a succinct overview of these at any time to anyone who asks.

- Monitor progress with risk response strategies with the risk owners on a regular basis. Show it matters by your words and your actions.

- Ensure that the time and effort to complete risk responses are built into your project schedule and budget. Failing to do this will almost certainly mean that the work will not be done.

Summary

Major companies who have invested heavily in developing risk management capability still fail to reap the benefits they desire from the investment. Although there is a widespread perception that risk management is good for business in general and for managing the uncertainty inherent in change initiatives in particular; there remains a disconnect between the intention to put risk management into action and practice on the ground.

This paper has looked at real examples from companies in 2005 and has suggested that the focus for attention in future should be to develop an organisational culture for risk management that appreciates, at its heart, that risk management is essential for solving problems and reconciling dilemmas in an effective way.

Currently, there is something about the attitudes that individuals and groups hold regarding risk that is leading them to take unmanaged chances, preferring to deal with resolving those issues that do happen, rather than avoiding situations that might happen. Some clues to understand this type of risk attitude are available, but there is more work to do to shed light on the phenomenon.

Whilst this research is ongoing, however, there are many practical things that leaders can do to be positive role models for risk management, to "walk the talk" and turn the investment of their company into a tangible benefit. These simple but effective changes to behaviour may be all that is needed, and hold the key to putting risk management into real action?

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