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Creating value from uncertainty

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Presentation:

Managing risks within projects must be simple

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Today

The true purpose of risk management in projects

How to integrate the risk management process into project processes

Some examples using decision points and assurance processes

What is the framework and its vital role

The purpose of the plan

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Simple, central concepts

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Projects

Exposure of capital (financial or human) to risk - so that the organisation achieves its objectives

Project = investment opportunity

Effective management of risk is vital for the optimisation of the return from the investment and satisfying organisation's objectives

Potential outcomes:

a. Negative return (loss), objectives not achieved

b. Good return, but objectives compromised

c. Good return and objectives achieved

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Simple concepts

Risk is the *effect of uncertainty* on what we want to achieve, our organisation's objectives

It arises from factors in the external and internal environment that create uncertainty - risk sources

Its neither positive not negative - the way we describe it depends on whether we view the potential consequences as beneficial or detrimental

We use risks to describe risk. Statements that describe examples of things that might happen or are present and what they might lead in to, in terms of effects on our desired outcomes and objectives

Controls are the things we already have in place that *are modifying* risk. They enable us to achieve our objectives and desired outcomes

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So, to manage risk in projects …

We need to understand what are the major sources of uncertainty for the investment opportunity

- External and internal

We need to take action to ensure:

- The investment opportunity produces a good return from the capital invested

and

- It helps the organisation achieve its objectives

Provide support for decisions and ensure that effective controls (enablers) are in place

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How do we do this?

1. Challenge assumptions and preconceptions before decisions are made (*what would happen if …*)
2. Take appropriate actions to reduce the uncertainty that our objectives and desired outcomes will be achieved
3. Provide early warning that key controls are not in place or are not be fully effective, so that pre-emptive actions can be taken
4. Enable the project and organisation to learn continuously from successes and failures – at a fundamental level

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When do we do this?

1. From the very beginning
2. Throughout the project life cycle
3. Whenever an important decision is made

Organisations and those that lead projects need continual assurance that there is a high likelihood that the project will achieve the desired outcomes and will support the achievement of the organisation's objectives

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Risk management is a dynamic, not a static process

Its triggered by the need to make a decision, not by a calendar

There is little point in doing it for its own sake

Periodic risk register reviews create little value and often send the wrong message

Risk registers are just snap shots showing we thought about risk, they actually have little real value

Value is only created when we complete risk treatment actions, and create or modify controls

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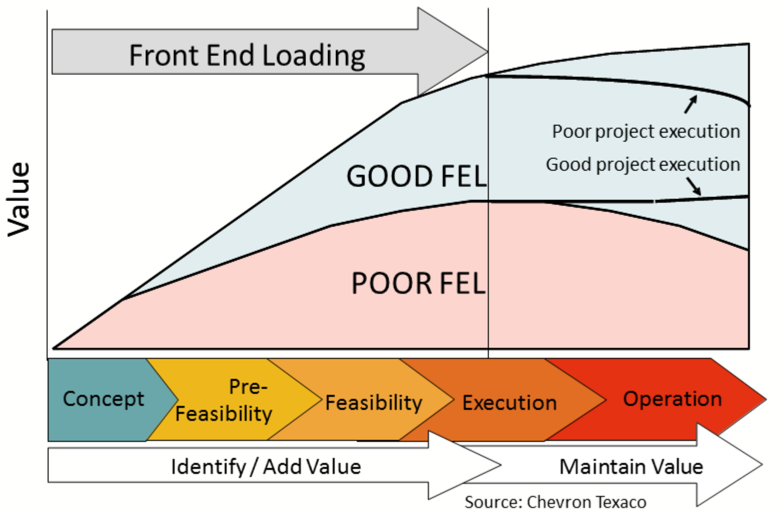
Project risk management is a value-adding component of good front end loading (FEL)



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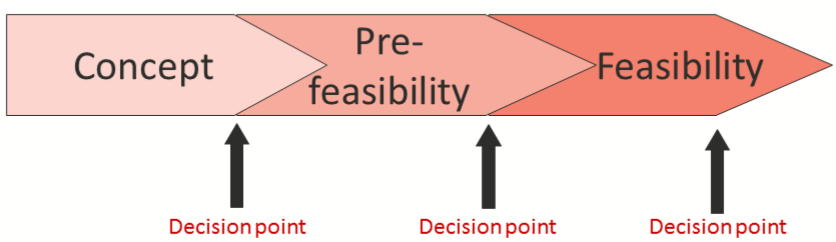
Decision criteria



• *Can we achieve our objectives and produce a worthwhile return?* • *Are there any fatal flaws or killer risks?*	• *What are the realistic alternatives?* • *Which is the preferred case?* • *What are the risks and key controls?*	• *Will we deliver the forecast outcomes and aid the objectives?* • *Is the PEP credible and how shall we ramp up?* • *How will we assure the key controls?*

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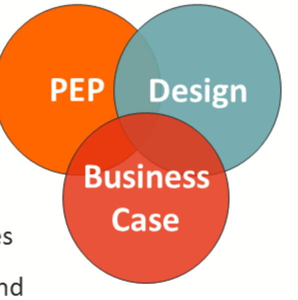
Decision point submissions



1) Business case – the 'Why'

- How will we help achieve the organisation's objectives
- What are the expected return and outcomes
- What is the level of uncertainty for both - and the key controls

2) PEP (for next phase) – the 'How'

- Sources and level of uncertainty and key controls
- Resources required and key controls
- Actions to create or enhance controls + control assurance

3) Design – the 'What'

- Necessary to achieve the predicted return and the organisation's objectives
- Key controls and assurance activities

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Integration and the framework

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Integration

We already manage risk – naturally

Every time we are faced with a decision, we naturally think about the effect of uncertainty on our overall objectives and how to deal with it

Following the risk management process just ensures we do it much more effectively and efficiently

Because risk management is already integrated and natural, we should not attempt to de-integrate it and make it unnatural

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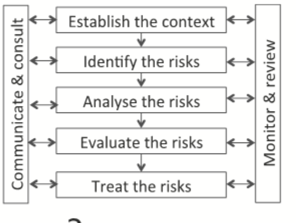
Risk management supports decisions

The things you automatically consider (to some extent) when making a decision (implicit or explicit)



1. What do I want to achieve?
2. How shall I go about it?
3. Who do I need to involve?
4. What might help me or impede me?
5. What lessons can I learn from the past?
6. What I need to do to make sure I am successful?
7. How do I know if I will be successful?

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Artefacts, encumbrances and three-letter acronyms

- Risk velocity
- Risk clock speed
- Risk maturity
- Risk culture
- Risk governance
- Risk attitudes
- Risk universe
- Risk intelligence
- Risk tone
- Risk appetite statements

- ERM
- CRM (collaborative risk management)
- GRC
- SRM
- IRM
- ORM
- BCM
- BRM
- oh, and 'Resilience'

Hearing over the Cacophony
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These artifacts, encumbrances and acronyms, oppose natural integration

They disenfranchise those who are faced with decisions, who need to manage risk effectively and who need support

They are normally created as a marketing ploy by consultants or software producers

Hearing over the Cacophony
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What is a framework?

It makes risk management 'happen' in an project or organisation

See IEC 62198:2013 and ISO 31000:2009

It consists of two parts:

1. An expression of the intentions – how we signal what, why and how risk will be managed
2. The capacity it provides to manage risk to keeping with our intentions:

- Tools
- Capability to use them as part of decision making
- Ability to continuously adapt and improve

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The risk management plan (critical)

A proper plan, not just boilerplate text

Created at the very beginning of the project and updated at the start of every phase

Essential parts:

1. How risk management will be integrated into the project decision making processes, throughout a particular phase
2. Tasks and activities: when, how, by whom and with what purpose
3. The additional resources and capability that are needed
4. Training and skills development
5. Reporting and project governance

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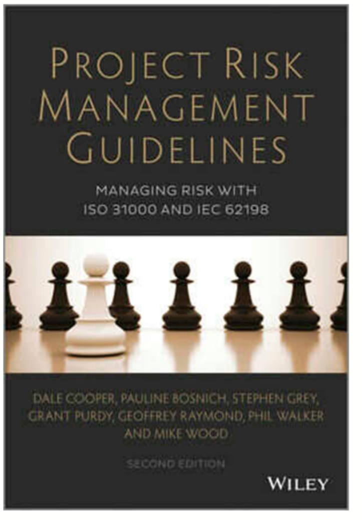
A source of practical advice

How to manage risk within a project, effectively and efficiently

Lots of examples and real solutions

Each author has many tens of years experience in managing risk in projects



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Summary

Managing risk effectively ensures projects achieve desired outcomes and support the achievement of the organisation's objectives

A dynamic activity that supports decisions and makes sure the important controls (enablers) are in place and effective at all times

It should be fully and properly integrated into all important project decision-making processes

This requires a framework, that is implemented through a plan

Ineffective risk management provides a false sense of security and does not create value

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