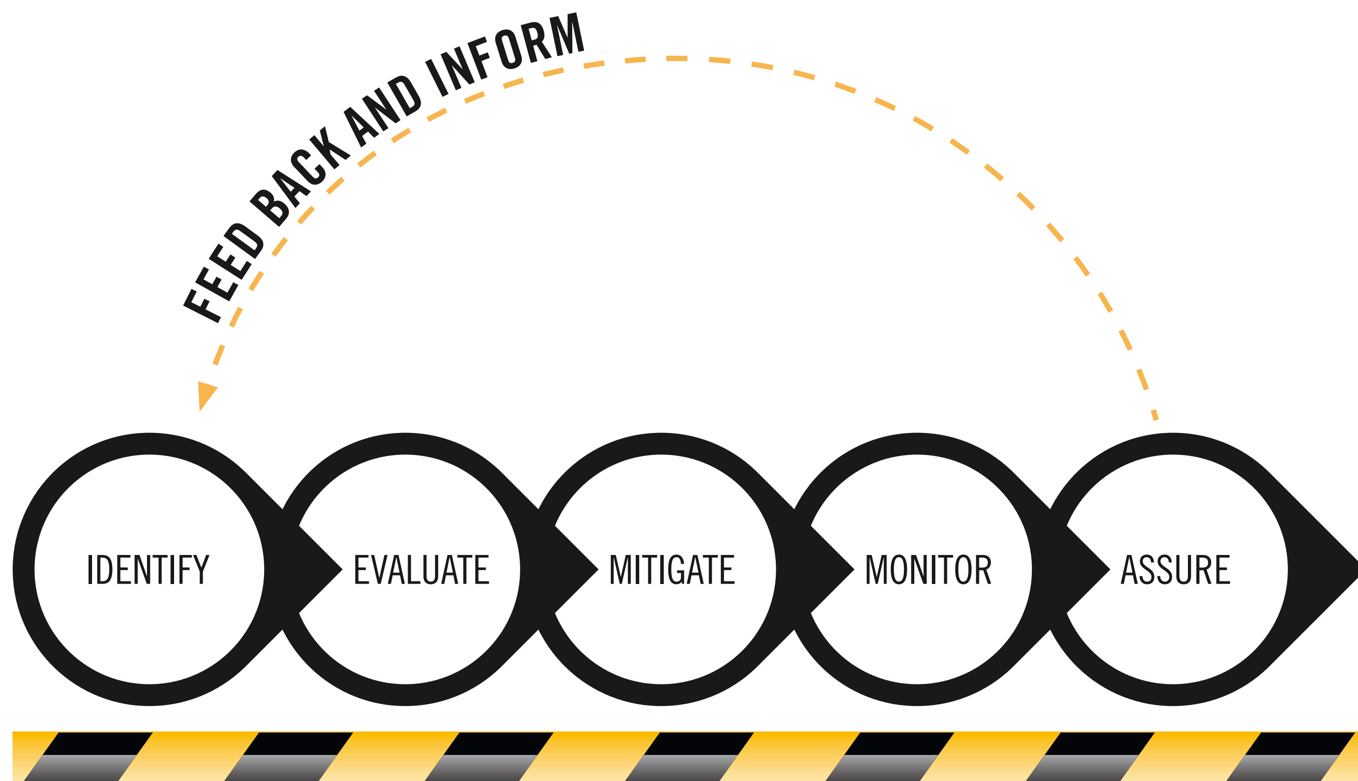
UNDERSTANDING THE BUSINESS OF RISK

Doug Littlejohn is director of consulting for the 20/20 Business Group. Speaking at the recent APM Scottish Conference he told delegates about the importance of risk management from a business perspective.



"THERE ARE **KNOWN KNOWNS.** THERE ARE THINGS WE **KNOW THAT WE KNOW.** THERE ARE **KNOWN UNKNOWNS.** THAT IS TO SAY, THERE ARE THINGS THAT **WE KNOW WE DON'T KNOW.** BUT THERE ARE ALSO **UNKNOWN UNKNOWNS** – THE THINGS **WE DON'T KNOW WE DON'T KNOW."**

DONALD RUMSFELD, FORMER US DEFENCE SECRETARY

Doug explains: "If you look at the statement above in the context of risk management it is quite good. There are known knowns. There are things we know that we know.

"Great, that is all in the plan, these are your scheduled activities, all the stuff that is in your scope and hopefully covers all of your 'issues' as well.

"There are known unknowns. Giving you an example from my oil industry background – the weather and the potential impact the weather has on an operation. This is a perfect example of a known unknown and something that can be normalised. The unknown unknowns are the ones that will really come and bite you. So this epitomises for me what risk management is all about."

For Doug, his interpretations of risk are simple. He said: "If you look at any of the definitions for risk it is all about uncertainty, systemising the management of uncertainty and developing a process so you can repeat that systemisation all of the time.

"There are different types of risk – operational, project, financial, business – in a project environment. There are risks coming at us from everywhere and the key thing is they are not mutually exclusive – they can all happen at the same time, there is no rhyme or reason to it, sometimes stuff just happens."

He added: "Most of the great inventions have actually come out of risk management. Opportunity comes out of risk management."

Doug believes firmly in the risk boundary. This stems from the risk appetite of a project, the amount of exposure or risk that an organisation and its stakeholders are prepared to accept or tolerate. Risk appetite is a boundary above which the level of risk cannot be tolerated.

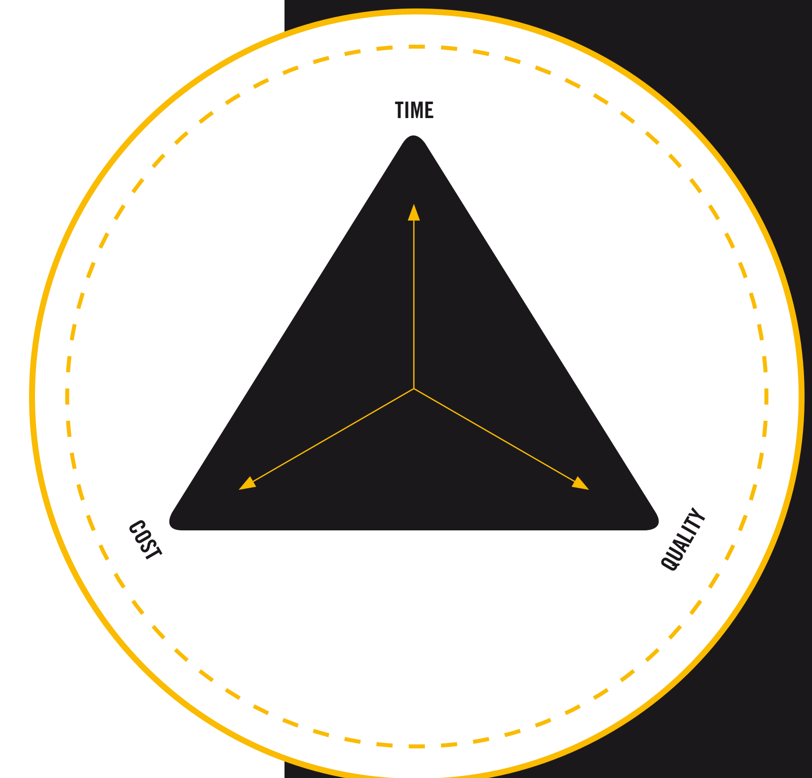
"If you go into a project not knowing what that boundary is then it is going to be very difficult to manage," he explained. "A lot of organisations will not have defined what that boundary is so the project manager is running blind because he doesn't know what he or she can or cannot accept.

"Project management is all about compromise. It's about executing scope too, but an awful lot is about compromise – so you need to know where you can compromise. If, for example, you are developing a new drug, quality is the absolute driver so if you do have to compromise the place where you will do this is cost or time. You might put another year on the project and you might put some more money into it but what you don't want to do is put a bad drug on the market. You need to know where to stop – within a project environment."

Doug Littlejohn
Director of consulting for 20/20 Business Group.

RISK BOUNDARY MODEL EXPLAINED

Doug said: "The dotted line is seen as the area within a project environment where you would be able to go to without exceeding your use of contingency. So the part between the edge of the triangle and the dotted line will be where your contingency sits. The outside line is the place where your business will not go – some operators and owners will not be able to spend a certain amount of money but you need to know what that boundary is."



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The language of project.

THE LANGUAGE OF PROJECT

Knowing the boundary means you have to be able to speak the language of project, but what is it and how do you talk it?

"The reality is that most projects ultimately have a capital owner," he said. "An owner that is spending their money to extend the reach of their service or the product.

"For the vast majority of these organisations project management is not core business, it is just an enabler to improve the value of their business – so they have a whole bunch of suppliers and contractors that they bring in (this is the bit underneath the water of the iceberg) – they specialise in delivering projects so for them it is a commercial activity. They are driven by profit and the conventional business need to make money – so straight away you have got a conflict in language because you have the guys at the top of the iceberg speaking the language of cost management, benefits realisation etc – while you have the guys down below (the larger part of the iceberg below the surface), speaking the language of margin and profitability."

20/20 Business group is then able to provide a translation service between the two.

"This means we don't have two different risk registers for the same project," he continued. "This has happened on many occasions because the risks to the supply chain are not necessarily the same as the risk to the owner of the project.

"We try to harmonise into one project risk register.

"Some of the time this will involve sensitive information that we may or may not be able to speak about but it's all about the communication – the language of a project is something that we see an awful lot of and the difference between the capital project language and the commercial project language is actually quite significant.

"This also has an impact on where that boundary sits. The risk boundary/the risk appetite for the owning organisation can be very different from the contractor's risk appetite."

LESSONS LEARNED

So how important is it that project managers are able to learn something from the risk management cycle?

Doug added: "So you have the normal risk management cycle – identify, value, mitigate, monitor and assure.

"This is a standard risk management process and just another version of the same thing only the key to this one is the 'feed back and inform' loop.

'Lessons learned' by its nature means it's too late. If you have a lesson to learn then what you were trying to prevent will happen or has already happened and is no longer a risk.

"So the lessons learned done properly is an area where you can have a huge amount of impact on risk management going forward for the next project.

"It's about learning the lessons and changing best practice to mitigate out the problems that you have found."

Doug said he spends a lot of time with companies who are only too happy to show him their lessons learned database.

> "AS A PROJECT MANAGER YOU CAN DELEGATE RESPONSIBILITY BUT YOU CAN'T DELEGATE ACCOUNTABILITY FOR MANAGING RISK WITHIN YOUR PROJECT ENVIRONMENT."

"These are full to the brim of lessons learned," he said, "but this is not a successful lessons learned process; it is just a database full of disconnected stuff which people may or may not find.

"Ideally what you want is a continuously emptying lessons learned database, because then you know the organisation is actually learning, it is changing best practice and improving the way it does things, addressing lessons learned and changing procedures and processes.

"If you have a full lessons learned database I would argue that they will keep learning the lessons and the same things will keep on happening.

"So the feed back and inform loop is very important in risk management and very closely linked to lessons learned."

For many businesses the reality of risk management starts and ends with the risk register. However, Doug feels this isn't managing risk to its maximum potential.

He said: "If all you are doing is creating the risk register that is not a very good advert for risk management – if you just have this and nothing else is happening after that, then you are not managing risk very well.

"Regarding the risk identification process – you need to get the right people, the experts, in the right place at the right time. You need to give them the space to let them brainstorm everything out, then you can start to theme things and look at what the common areas are and you can start to look at specific places such as the supply chain, culture, geography etc."

So where are the places that you look out for risk?

He explained: "Risk can be internally generated and driven.

"Problems can happen when you get a lot of well meaning experts who can, if not directly connected to a project, cause more problems than they solve because they are imposing something which is an interpretation of something that is driven externally on an internal project.

"So you need to watch out for that – people who are coming into projects and are not experts and interpreting something incorrectly and trying to impose wrong external influence on your project.

"I did a job recently for a company who said they had a problem as all of the risks they had on all of the risk registers for all of their projects were coming to fruition. They asked if I could look at their process.

"The process was absolutely robust, all of the project managers gave the right answers, everyone on the project teams had bought into the process, so it wasn't the process. What it was, was that they were polluting their risk register with issues.

"Issues are often difficult things, but the differences between risks and issues are that issues have a 100 per cent chance of happening, so they are not risks. They should go into the plan because they are part of the job but making that distinction between risks and issues for these guys was important because the top 10 on their risk register were actually not risks at all.

"So not only were they happening because they were always going to happen but the 10 below that, which were actually the risks that they had been distracted away from, were happening as well because they weren't being addressed.

"So separating them out is quite important."

Doug believes that in the same way as you would measure projects with key performance indicators you should look at key risk indicators.

"Doing the right project is actually as important as doing the project right," he added. "That's where your risk management comes into play to see if you are prepared to tolerate that potential. I like to say projects are delivered by risk managers and not the other way around.

"As a project manager you can delegate responsibility but you can't delegate accountability for managing risk within your project environment.

"Ask yourself what the risks are and what you need to put into place to manage risk in the same way as you manage overall performance because risk will affect performance – so by doing this in tandem with measuring KPIs you have a better chance of achieving them.

"Because risk is such a key part of project management, because it is always there, why can you not use indicators like you would for performance to manage the potential downsides or manage them so it doesn't affect your KPI?

"I would argue that risk is so fundamentally linked to project management that it can't just be another audit, it has to be part of the overall measurement criteria."

RISK MANAGEMENT

Doug explained that many businesses are guilty of not looking at risk management in its entirety.

He added: "Risk management and the application of a risk management process is so fundamental to good business it worries me sometimes the number of clients – when I ask if they have got a risk management process – who show me a health, safety and environment document, and all they are looking at is hazard.

Now hazard is a very important part of risk management, but its not risk management in its entirety.

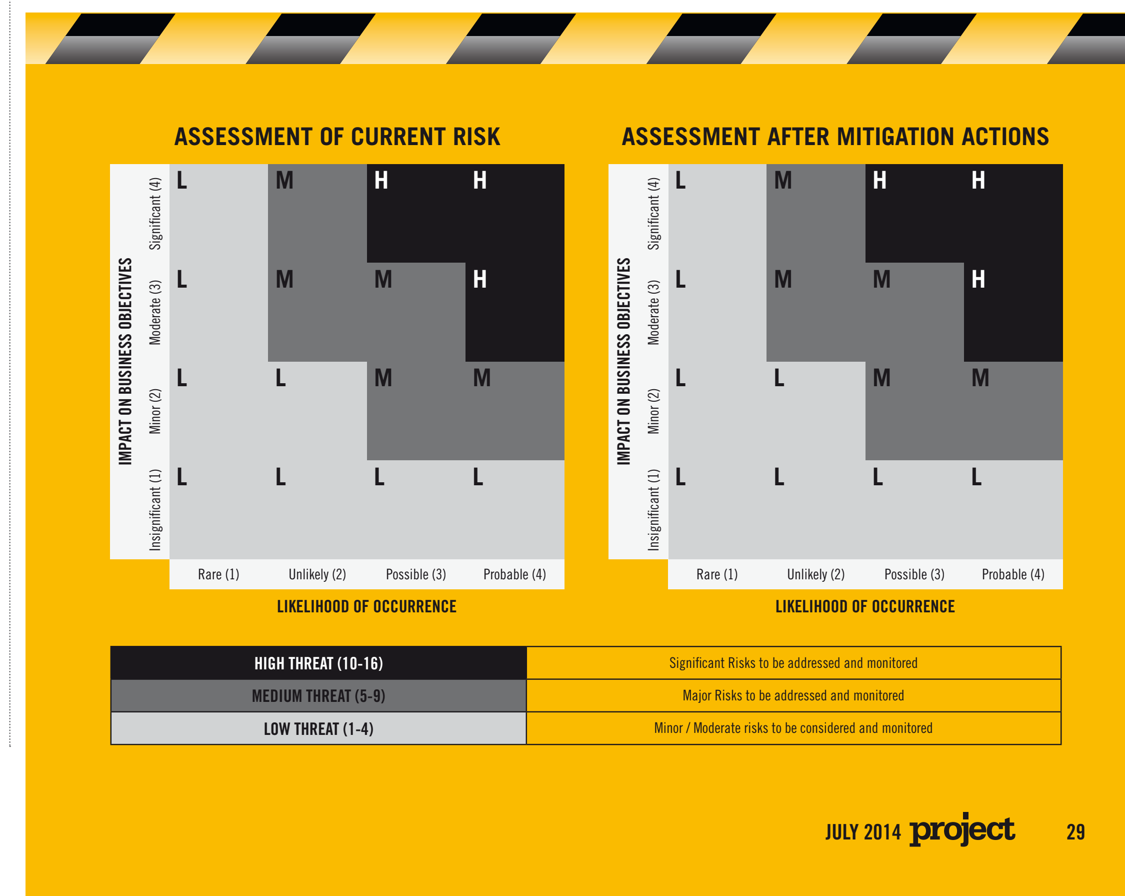
"So informed risk taking equals better decisions – you can't make decisions if you don't have all of the data – you can't make conclusions if you don't have all of the story. It's about sound financial management, improving strategic performance, fewer missed opportunities and it's not just about compliance.

"If you have a robust risk management process in place in the business you will find governance occurring just because people understand what governance is – governance is not a bad word, it is just good management, good decision making.

"Risk management is often very poorly integrated with other management systems. It's often the poor relation to things like engineering and procurement and people will continue to take risk without addressing it properly.

"It can be too much about assessing and not enough about managing – you have to accept and embrace risk – it will always be there and the project managers that don't accept risk are normally the ones that tend not to succeed."

Diagram below: Risk Mapping.



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