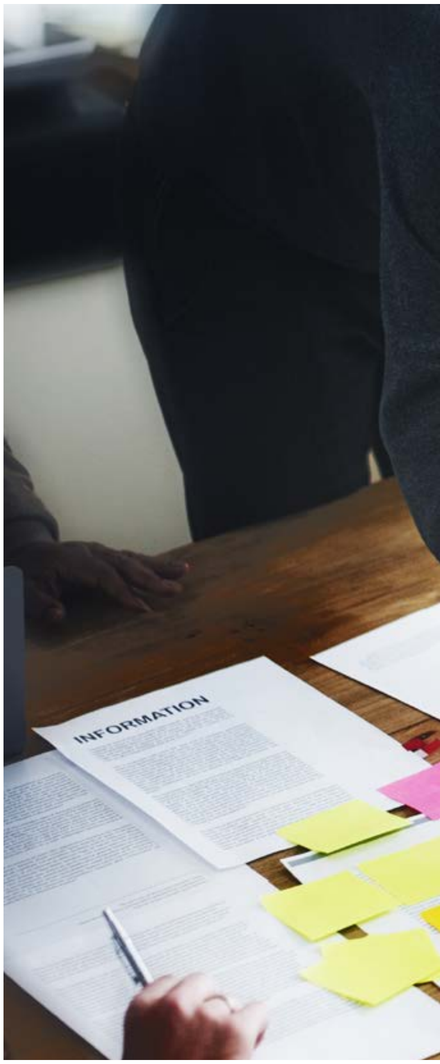

Planning for success

Risk managers can make a crucial contribution to the success of new business projects

BY GARETH BYATT

We take and manage risk to seek reward and achieve objectives. All projects involve risk, some more so than others, but risk should be understood as meaning uncertainty, which covers both threats and opportunities. Inbuilt into every project planning process should be the creation of a project Risk Management Plan (RMP), or a subset of the project management plan, to define how the project team will take and manage risk.

An RMP should be put together by a project risk coordinator, who is appointed early in the project's life by the project manager as the project team structure is being defined. Whether the risk coordinator is a full-time or part-time role on your project depends on the project's nature and size. Many high-risk large projects employ a full-time risk manager.

Whether it is a full or part-time role, the coordinator needs to liaise with all project disciplines and be the glue ensuring that managing risk is done cohesively and collaboratively, not in functional silos. If your organisation has a central risk function, they should support the risk coordinator. They can provide guidance for the RMP and perhaps include them in any risk

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champions' network to provide mentoring and skills development.

The plan

Risk managers need to include four critical elements in the RMP. First, set out how all disciplines/ teams on the project will manage risk in a coordinated and common way, focusing on achieving project objectives. Second, specify roles and responsibilities for taking and managing risk. That includes defining a governance structure to oversee this activity, including deliverables for phase and gate reviews.

Third, articulate how the management of risk will be embedded into the rhythm of everyone's activities, as part of the team's culture. And finally, describe how you will leverage your organisation's knowledge and resources, such as central personnel, lessons learned from other teams, templates, tools and techniques.

The team environment and culture is a defining influence on how a project team takes and manages risk. It is important to ensure that people's attitudes and behaviours to risk are aligned with the objectives of the project, and that team members are clear on what is expected of them. The team's understanding of its risks must be consistent with how these risks are being communicated and discussed with the project's parent organisations and other stakeholders.

At the earliest possible time – this should be described in the RMP – the risk coordinator should assist the project leadership team in applying recognised good practices to ensure a healthy environment and culture. The IRM's practical framework for establishing and maintaining a healthy team environment and culture is helpful here (*Risk culture, resources for practitioners* is free to members and can be found on the IRM website).

Risk appetite

A risk appetite statement is a good way to define your propensity for taking different types of risk. The use of risk appetite is common in some sectors, particularly finance. It is used sparingly in many sectors, if at all.

Defining your risk appetite for your project, and agreeing it with key stakeholders, can play a useful role in informing people where your focus needs to be. A project that needs to take risks to achieve ambitious financial objectives will have higher appetite and tolerance ranges for financial risk, for example, than a project which is financially risk averse.

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Establishing and communicating a clear risk appetite fits naturally with establishing the right team environment and culture to manage risk.

Risk appetite is most effective when it is either created by the team or guided by the project's parent organisation, and then integrated into how the project team collaboratively evaluates and manages their risks across all disciplines. When risk appetite is being considered during regular reviews and daily activities, it has established itself as a valuable tool for decision-making and to measure performance against objectives – of which, more later.

When the right team environment and culture is in place, and your appetite for risk is understood, taking and managing risk should be ingrained into everyday activities. It leads to the proactive anticipation of risk and measuring the cost-benefit of actions, and having the resilience to respond in the best way possible to risk events should they occur.

Prioritisation of risk is important. Many of us are familiar with an "impact x likelihood = rating" method to prioritise risks into a "risk matrix heat map" and/or a risk register. Using a risk matrix – the levels in which will be influenced by your risk appetite – to prioritise risks, and displaying these risks in a heat map, is a good starting point. But additional factors should also be considered to improve the quality of prioritisation and focus (See box, *Priority and focus*).

PRIORITY AND FOCUS

1. **Impact:** most risks have multiple consequences; many risks are interrelated. Collaboratively review the full impact to your objective(s) if the risk were to occur by understanding all consequences and the knock-on effects of the risk to other risks and objectives. A matrix can help with this in which the rating of a risk goes up if, by occurring, it drives up the rating of other risks.
2. **Likelihood:** use good quality data to confirm the likelihood of a risk occurring. It is also vital to understand the current controls in place for the risk and to know (through fact-based evidence and audits) how effective they are. If you have gaps in the control environment, particularly for critical controls, the likelihood of risks occurring for which they are associated with will be higher until you plug the gaps.
3. **Appetite:** review how the project's risk appetite will be impacted if the risk occurs, for example forcing metrics out of tolerance and what that would mean to project performance.
4. **Risk relationships:** which risks demonstrably have a large impact on other risks if they occur? You can identify this in a matrix structure.

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Critical controls and tools

Prioritising risks helps us focus on the prioritisation of controls. Having the right controls in place to manage risks, rating control effectiveness and testing controls is a fundamental part of risk management. Controls must be proportionate to the risks that are faced so that effort is focused on what matters most. Controls rated as "critical" are those that have the largest effect on managing the risk. They are the most important controls to focus on and to have appropriate assurance in place, for example, through functional, internal and perhaps external audits.

The RMP should describe a risk toolkit, perhaps provided by your organisation's risk team, of techniques and tools that will help the team.

The toolkit should complement the processes already used by all disciplines on the project.

Typically, tools will include an IT risk tool, which can be anything from a shared risk register, to a comprehensive source of knowledge for all risks and controls. Most tools are likely to help teams to manage their risks, events, incidents and audits in an online, collaborative and efficient way that is better than using document versions.

But they should also include risk workshops, for example, that are planned, structured and run by a facilitator. They can be planned into the project schedule for key milestones. Discipline-specific workshops, always with a few people from outside the discipline, should be held when required.

One simple way of helping keep the project on track is to create a risk card. It is a modest but useful tool to provide to team members. It is a double-sided and laminated card – A4 or letter size – that summarises the key points of your culture, your risk appetite, your risk prioritisation process, and how the management of risk is measured. Laminating them makes a difference. Many team members will pin them to their desks and use them in future team reviews.

Measure it

Continuously improve your performance by measuring what is working and what is not. You can measure the management of risk and not let it go unseen if you weave your measurements into people's regular activities.

There are two useful ways of measuring the management of risk. The first measures the cost of controls and actions to manage risks, and their effect on project outcomes. You can establish an accurate estimate of the cost of controls when the right people are in the room. Ask the question during

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your reviews. When you monitor how well controls are contributing towards project performance, you can demonstrate their financial value, whether they are safety controls, design controls or others.

The second, is to measure the cost of managing risk against risk appetite performance and project outcomes. By using your risk appetite to guide your decisions, you can track performance against risk appetite metrics over time – such as safety metrics, financial, schedule, supply chain metrics and others. This can in turn be mapped to the success towards achieving good outcomes.

Lessons

Risk managers can play an important role in educating people in their organisation about project failure and success. Use, capture and share knowledge and lessons learned of how you have managed risk, for your own benefit, and so that others in your organisation learn from your project's experiences. NASA, for example, turns their capture of risk knowledge into knowledge-based risks, which are freely shared and disseminated.

Your knowledge repository, structured in an appropriate way, will provide people with a valuable information source before and during their projects. Your RMP should include how you will run knowledge capture sessions, such as peer assists (seeking knowledge before activities commence), after action reviews (quick-fire learning during activities), and retrospectives (post-implementation lessons learned). Incorporating these activities into the risk management schedule will produce a rich source of information for the entire business.

Taking the time to plan, implement and monitor good practices to take and manage risk increases the likelihood of achieving project objectives. Taking the time to measure your management of risk, and ensuring knowledge is shared, allows you to tangibly demonstrate the cost-benefit of your activities.

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