Building business resilience: managing risks and issues and embracing opportunities

This is the sixth post on the Change and Programme Management series. **Today we are looking at the "inside out" perspective, challenges and potentials of delivering programmes to build business resilience by managing risks and issues and embracing opportunities to innovate and make improvements.**

Before embarking on this, I would suggest that business resilience, being about riding the waves of change and potential disruption successfully has a causal relationship to the "Outside in" perspective, in using organisational "Cat's whiskers", sensing system or competitive intelligence capability (through a learning organization typology) to improve innovate and renew competitive advantage.

The business perspective is different to the programme perspective as the strategic intelligence architecture of a firm is more about continuous strategy renewal than "execution or operational excellence".

Both are absolutely necessary to set the direction and steer an organisation to adjust its trajectory.

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When starting and growing a business or developing a change programme, it does not take long for technical and commercial issues to get more complex. It is not rare either for financial metrics to proliferate. Finance and change programme teams often end up measuring performance and risks in different ways, using various sources of information and, in many cases, using a different language.

Based on my experience with international companies on different continents and as an entrepreneur, it is clear that developing business resilience and effective risk management begins with realism – seeing things as they are. It must continue with a joined-up approach and common understanding at all level of a business or team. Some industries or sectors are better or more apt to recognize this simple fact, that's why a diversely experienced and inclusive team will make you stronger too.

First of all, it would be good to agree that risk and opportunity assessment is not an exact science. In my view, qualitative risk analysis is essential while quantitative risk analysis may sometimes be considered as optional depending on the maturity of the organisation you are operating in and the level of realism captured in its existing plans.

Don’t get me wrong I believe Quantitative Risk Analysis is an extremely powerful strategic tool to measure probability of success and impact of key changes. However there is little point in running statistical analysis on a flawed or unrealistic model. A fool with a tool is still a fool…

A strong corporate/team risk management culture and consistent risk rating methodology are fundamental to the success of a change or of a new business in order to focus on the risks that matters without keeping your eyes from the ball (the destination and benefits your initiative will generate) while embracing opportunities and innovate on the way.

The guidance below offers a structured common-sense-based approach to risk management.

Success factors: Key risk management success factors can be defined as:

- Risk and control experience,
- Alignment to business value drivers and strategic objectives,
- Awareness of changing risk profile and risk appetite,
- Comprehensive approach to risk and established standards.

Risk categories: Risks will generally fall under the following categories:

- Financial;
- Reputational;
- Health & Safety;
- Operational.

Objectives: The objectives of effective Risk Management are to:

- Provide a mechanism for the early identification and resolution of risks that may arise.
- Ensure that risks are escalated to and mitigated by appropriate levels of management.
- Provide for the visibility of risks that may affect or are affecting high priority projects.
- Provide accountability for the mitigation of project risks.
- Provide guidance for the correct control and administration of the recorded risks.

Definitions: A risk can be defined as:

Any event or action that may result in a programme not achieving its objectives.

Risk can be categorised as:

- Hazard - risk of adverse events
- Uncertain Outcome - not meeting expectations
- Opportunity - exploiting the upside

An issue can be defined as:

- Any unresolved problem which could jeopardise programme outcomes,
- A risk that has materialised.
- An uncertainty not previously raised on the risk register which has occurred.

Quantitative risk assessments (QRA) based on experiential understanding of the effect of uncertainty in relation to the programme outturn cost (or anticipated final cost AFC) and schedule delivery can be performed at key stages if your model is strong enough. Certainty of outcome will become greater as the programme approaches its final stages. Probability management will store uncertainties as data in a "realistic" model that is actionable, additive and auditable.

For this purpose, t*hree-point estimating provides can be used as a tool for estimating cost, schedule values and assessing overall risk.* On large programmes, given the number of estimates and activities– the three point estimate can sometimes be misleading. Another estimating technique is to enter "variances" of the probability distribution around the most likely estimate. Based on an integrated holistic understanding and current knowledge of the programme inherent risks.

The following areas will need to be considered during this process:

- Accuracy of data and assumptions,
- Inconsistencies in data set,
- Data errors,
- Need for a wide range of perspectives,
- Consideration to risk mitigation plan that can limit risk impact.

A quantified risk analysis (QRA) will confirm the appropriate level of contingency (also known as "overall risk pot") required to deliver and to be shared between funding organisation, programme and projects. This includes the assessment of risks within individual projects in addition to cost and schedule risks across the programme.

The basis of the risk model should be an agreement of risk allocation between Funder's. The level of contingency proposed in the budget should represents those risks agreed to be under the influence and control of funders, programme and projects. The funders contingency relates to risk that do not sit with the programme and projects. The programme contingency relates to risks that do not sit within the individual projects and are not covered by project contingencies.

In summary, an s-curve will represent the likely exposure of the total risk across the programme. Based on the agreed allocation of risk to, at the 80th percentile, the contingency requirement inclusive of VAT will be estimated– i.e. there is an 80% likelihood of not exceeding this contingency. The curve will also indicates that, from the analysis, an additional £xxxm would be required to secure a confidence of 95%.

In conclusion, it is apparent from business, change and programme delivery history that the risk of strategic misrepresentation remains high. Senior managers will need to consider the level of optimism biased (the tendency to overestimate the achievability of planned actions) for any change programme. Benchmarking, due diligence, historical local performance analysis will allow the programme to avoid blind spots and prepare their organisation for black or grey swan events – low probability high impact risk (terrorism or major temporary design failure) or unknown unknowns (natural disaster).

Building business resilience and developing risk management are two faces of the same coin that will make your business stronger by managing risks and issues effectively and embracing opportunities to innovate and improve. What do you think? How could this be applied to your business or organization or programme? Could it be done differently and intuitively or improved with the help of information technology?

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