

A Critique of the Risk Management Strategy in a major Government Programme in a Developing Economy - The Nigerian Electricity Privatisation Programme

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1. Introduction

In discussing risk management in a national government organisation, we could take a cue from enterprise risk management. From this platform, we may extrapolate our discussions to a nation-wide organisation since the enterprise in this case has a geography which embraces the whole nation. This article should touch on the following topics:

- Starting from considering an effective enterprise risk management strategy, we examine the necessity for an effective national risk management in a government organisation in a developing economy, with our focus on Nigeria.
- Necessity for the electricity privatisation programme in Nigeria; what are the challenges and envisaged risks? What could be the practical consequences of failure to install an effective risk management strategy?
- An example of risk management strategy in large government establishment in a developed nation.
- Recommendations on how to achieve an effective national risk management strategy.
- Concluding remarks

2. Enterprise to National Risk Management Strategy

Enterprise Risk Management (ERM) provides a framework that enables an organisation to understand and respond to its business uncertainties and opportunities. ERM enhances organizational resilience by improving decision making, strengthening governance and supporting a risk intelligent culture. Enterprise risk management enables the systematic identification, balancing and controlling of portfolio of business risks, and the alignment of an organisation's risk profile with its risk appetite. Executives must first define their organization's risk appetite: that is the degree of uncertainty they are willing to accept if a project falters or fails, and how much of their investment they can afford to lose if the worst-case scenario occurs. In the same vein, national risk management for a national government organisation should facilitate its understanding

and response to the uncertainties and opportunities it has to grapple with in its operations. The proactive study, planning and implementation of an effective national risk management strategy is intrinsically tied to success in delivery of projects by a large government organisation operating in the risk-prone environment of a developing economy such as Nigeria.

A national risk management strategy should include identifying sources of risks, categorising and analysing the risks, evaluating the risks, and installing effective ongoing procedures for managing and controlling the risks. The procedures and techniques used to manage risks will vary depending upon the nature of the risks and level at which they are being addressed. As a result, general risk solutions can rarely be applied. The recommended approach should be to understand the specific issues impacting on the organisation, then to design bespoke solutions to address the hierarchy of risks [1].

We shall explore this approach as it leads to the robust management of risks throughout all phases of an organisation's activities. In effect, for a start, we shall consider the problems of electricity supply and the inherent risks in Nigeria. It is expected that these should present a good business case for the privatisation programme.

3. Some Problems and Risks in Nigeria's Electricity Supply

3.1 Poor and unreliable power supply, a drawback to competitiveness and economic development: Without adequate and reliable electricity supply, socio-economic transformation in the country will remain a mirage. In Nigeria, it has for long been a case of unpredictable, unreliable and epileptic power supply. Manufacturers associations and other professional bodies have consistently complained that inadequate power supply remains the greatest constraint to the competitiveness of the Nigerian economy.

3.2 Companies spend large amounts of money and other resources every year to provide for their use electricity supply from large generators as alternatives to the poor national electricity supply. These generators are no longer “standby” as they were designed to function but now function as the main generators since the mains power supply is hardly reliably available. In a study conducted on the electricity industry in Nigeria, entitled: “Do Power Cuts affect Productivity? A case study of Nigerian manufacturing firms” by Busani Moyo of University of South Africa, corroborated the magnitude of the problem. A part of the conclusion reads as follows: “The severity of power outage problems in Nigeria is ironical in that the country is well endowed with resources to produce power from crude oil and it is the sixth largest exporter of crude oil in the world, but the electricity black-outs and brown-outs appear to be the order of the day in this country.”[2]

3.3 Corruption: Corruption in the electricity industry has been large and widespread. It is not just with the workers but also with the contractors, users, and indeed there is hardly any group of people that are untainted. On a large scale, the most obvious and common manifestation of corruption is the many failed projects. Cases in which

contractors are fully paid without the assignments satisfactorily carried out. In The Guardian Issue of Wednesday, 17 October 2012, entitled "[Elamah: Linger in the energy corridors \(1\)](#)", we read that " Nigerians are tired of living with broken promises and dashed hopes that the energy sector problem will soon be a thing of the past... This is further compounded by the extraordinary revelation of mammoth corruption in the sector. Never in the history of Nigeria has corruption been so edified and celebrated. In view of the mind-boggling sum of money that has been pumped into the sector over the years, coupled with accusations and counter-accusations of the players in the sector and the concomitant involvement of some members of the National Assembly, our supposedly oversight players, one wonders why Nigeria will not continue to linger in the energy corridors".

3.4 Effect on health: Today, the total cost of erratic electric power supply to us in Nigeria is very high. It is not only the cost of running the generators and losses in industry, but also the effect on health. Smoke and other combustion products increase air pollution, cancer is reportedly on the rise in Nigeria now because the air is polluted.

3.5 Our problems range from unending gas shortages to vandalism of power lines and power distribution equipment. Indeed, there are increasing cases of vandalism and theft of high tension transmission cables from ongoing transmission projects.

3.6 Failure and Refusal of government agencies and many Nigerians to pay for electricity consumed, leaving huge deficits in revenue collections by the Distribution companies.

3.7 Unreasonable requests for compensation by communities along transmission rights of way are some of the inhibiting challenges affecting project delivery and reform of the power sector. Delay to consider such compensation leads to hostility from some of the communities.

3.8 Problem of gas shortage to power plants, with a contributory factor being that some of these power stations are also owing the gas companies.

3.9 Vulnerability of gas thermal power generators: While it is a fact that gas is one of the cheapest sources of generating electricity, the experiences of the past years have shown that gas thermal power generators are clearly very vulnerable. For, in spite of whatever security arrangement is in place, it takes an aggrieved militant group a few hours to destroy a major gas pipeline supplying gas to the nation's electric power generators. The reason is that it is certainly practically impossible to man every gas pipeline effectively in order to prevent such a costly and devastating eventuality. This is why, for the purposes of energy security and stable power supply, the nation should diversify to other electricity sources like hydro, coal, solar and other renewable energy.

4. Processes for Developing an Effective Risk Management Strategy

Risk Management Strategy should address specific actions and the management approach used to apply and control the risk management program. The strategy could include identifying sources of risk, scheme used to categorize risks, and parameters used to evaluate, bound, and control risks for effective handling.

A risk management strategy should be developed early in the project, so that relevant risks are identified and managed pro-actively. Early identification and assessment of critical risks will allow project managers to formulate risk handling approaches and adjust and streamline the project definition and allocation of resources based on information on critical product and process risks.

Risk analysis entails identifying risks from specific internal and external sources and evaluating each identified risk to determine its likelihood and consequences.

Risk analysis is crucial, but it must be integrated into a broad project management strategy to achieve effective cost and schedule controls. In project management, risk analysis alone cannot control cost, it provides clues to cost issues, but does not track costs associated with risky items. A combination of simulation, earned value, and risk analysis is necessary to develop an integrated approach to cost control [1].

During the planning phase risk is identified, assessed, deemed acceptable or unacceptable, decision analysis is performed, and risk-based cost and schedule targets using a simulation technique are developed. During the execution phase a similar process is followed with the addition of the cost control technique of earned value that is intertwined with risk assessment updates and decision analysis to provide cost control.

A real-life application of the process described in the foregoing paragraphs is the practice of risk management in the US federal capital planning and investment management.

5. An Application of risk management strategy in large government establishment in a developed nation

The US Office of Management and Budget (OMB) requires the use of risk management, earned value management, and accountability for attaining cost and scheduling goals. Incorporating risk management into a comprehensive cost control strategy is vital to attaining better program and project performance.

Their suggestions for implementing risk management include the following [3]:

- Provide enterprise-wide leadership and technical support for risk management-- ideally within an enterprise-level Program Management Office
- Involve all relevant players at the enterprise level for the purposes of policy

determination and planning. They include: senior program managers, the budget officer, the financial officer, the chief information officer, procurement executive, security officer, etc.

- Develop enterprise-wide guidelines for "acceptable risk," and conduct periodic cost-benefits analyses to make certain that you are not spending more on mitigation than the likely cost risk occurrences
- Use uniform enterprise-wide software tools for budget planning, risk assessment, project management, and financial analysis
- Implement a scalable approach to risk assessment--so that \$100 million projects are adequately managed, but \$100,000 projects are not buried in excessive (and costly) drills
- Develop a process of peer reviews, where risk assessments and performance reports are reviewed by other experienced project managers.
- Cultivate a culture that acknowledges the probabilistic nature of cost and scheduling projections--and concentrate on monitoring and optimization, rather than blame games.

6. Recommendations on how to achieve an effective national risk management strategy.

From the application in the US Office of Management and Budget (OMB), the starting point should be the establishment and use of a programme management office (PMO). There could be an effective PMO with nation-wide and industry-wide responsibilities to oversee the privatisation programme in the electricity industry. This will include management of projects and operations in generation, transmission, distribution, and all ancillaries. We make the following suggestions:

Firstly, a Project Management Office (PMO) should enable the use of consistent project management and risk management methodologies so that everyone in the company can use the same guidelines and procedures and follow consistent processes.

Application: If a specified methodology is used consistently in all national generating stations, covering training and operating software packages, we could be sure that our generating teams are working in uniformity. This could make for ease not only in risk management but also in the movement of experts and sharing of knowledge among the plant operators. The same is also true if such an approach is used in the transmission and development sectors of the industry. It is certainly the case that when the industry is privatised, the details of the operating system might be outside the control of the government. However, a recommendation for consistency in methodology makes for

the long-term interest of the industry and should be necessary.

Secondly, a PMO engenders the implementation of affordable and selected enterprise-wide solutions.

Application: Nigeria is a developing country and inevitably much of the equipment for the generators, transformers, transmission and distribution, and other power supply facilities are imported from outside the country. It is essential and should make for cost-efficiency if the equipment and tools are rationalised such that as far as possible, they are of similar make. This will ensure that they will be easily procured when required. In addition, with time, we could develop to a situation that we can make some of the equipment locally. This should enhance the availability of the infrastructure required for operations in the power supply industry. This should lead to more operating hours of the power generation, transmission, and distribution equipment and availability of power supply.

Thirdly, a PMO provides an unbiased and objective status information regarding the health of each project. This is invaluable to project stakeholders and executives. Such information is necessary both for planning purposes and efforts to ensure the delivery of power supply to consumers.

Lastly, the benefits of a PMO, some of which are described above are realized at cost savings. For example, streamlining and monitoring of operations with consistent methodology should ensure that unnecessary expenses are uncovered and removed from the budget, such as paying for multiple versions of the same software. Real savings derived from resources being able to do their work faster will appear as net income. Also, the possibility of operators and professionals being available for use in any plant or sector without much investment in retraining will enhance the availability of trained workforce. Inevitably, this should lead to pronounced improvement in our national power supply.

References

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