Managing Risk to Raise Project Performance[1]

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Abstract

Risk comes in many forms and not all risks are created equal. Organizational leadership and project managers can increase project performance by identifying risks across relevant stakeholders and eleven common risk categories. Once organizational leaders have identified potential risks, they can qualify risks based on their risk appetite and what they perceive to be the likelihood and impact of the risk. This enables the project team to plan for the risk and develop mitigation approaches to address risk. Risk management is a continuous process and taking an enterprise approach to managing risk enables the organization to communicate, prioritize, and allocate resources to adapt to a changing environment.

Identify Risk to Understand the Operating Environment

Risk comes in many forms and it may only take mis-identifying or mis-calculating once to leave your project in complete disarray. Taking a holistic enterprise approach to identifying and managing risk can not only enable your team to alleviate risks, it will also enable your team to anticipate and scenario plan for prospective challenges. Enterprise Risk Management (ERM) is a holistic and continuous process that, when done effectively, entails identifying, qualifying, and planning for risks across the organization.

Fundamentally, risks come in eleven forms[2]:

1. **Compliance Risk:** This is the organizations' ability to follow applicable laws, regulations, and ensure accountability.

2. **Credit Program Risk:** This is the organizations' reliance on a borrower or financial counterparty to meet obligations and fully repay debt or interest on time. For instance, if an organization is funding a project through invoice payments from another project and if those invoices are not paid on time, this could slow or halt the project or cause the organization to borrow in the short-term, which could raise expenses.

3. **Cyber Information Risk:** This is the organizations' or projects' potential for vulnerabilities that compromise processed, stored, or transmitted information. For instance, cyber threats have caused many organizations and projects to re-think their

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[2] https://cfo.gov/wp-content/uploads/2016/07/FINAL-ERM-Playbook.pdf

security and factor in the risks that come with managing sensitive data. This consideration may require organizations altering their project timeline or adding security expenses to ensure information and controls are protected.

4. **Financial Risk:** This is the projects' financial impact to the organization such as the potential for loss of funds, increased expenses, or waste.

5. **Legal Risk:** This aligns with compliance risk and is the organizations' ability to meet contractual agreements or ethical requirements.

6. **Legislative Risk:** This is the potential for the legislative body to alter or impact the mission of the organization or shift the operating landscape in terms of funding, customers, resources, or products and services.

7. **Operational Risk:** This is the potential for failure of internal processes, people, or systems within the organization and can adversely impact the daily operations of an enterprise.

8. **Political Risk:** These are risks that occur due to key policy makers and can impact strategy, tactical operations, or shift the operating environment.

9. **Reporting Risk:** This is the risk of unreliable, inaccurate, or not timely information. Not having the right information to the right people at the right time can adversely impact operations and lead to poorly informed decisions.

10. **Reputational Risk:** This is the risk that external actors, such as customers, watchdogs, or the media, diminish the credibility and legitimacy of the organization. Oftentimes, this is a residual risk as risks that occur internally in one area can metastasize and externally harm the reputation of the organization.

11. **Strategic Risk:** This is the organizations' ability to adapt its business plan, mission, and/or model to changing conditions.

Taking a holistic approach not only requires identifying the types of risks, but also the stakeholders involved in these risks. For instance, you will need to consider more than just the organization and its staff, but also the project team, partners, vendors, legislators, borrowers and lenders, and customers who receive services or products from this organization. Each of these critical stakeholders can impact the project and contribute to risk. Identifying stakeholder touchpoints and interactions throughout the lifecycle is vital to the success of the project.

Qualify Risks to Establish Organizational Tolerance

Not all risks are created equal. Risks may impact the organizations' objectives differently and at varying degrees. To qualify risks, the organization should have a cross-functional team define their objectives and develop quantitative and qualitative targets whenever possible. This involves defining the expected outcome, who is accountable for that outcome, what resources will be provided to achieve this outcome, and timelines and milestones to reach this goal.[3]

This cross-functional team will review each objective, their identified risks, and will then need to demarcate their risk tolerance. Risk tolerance is "the acceptable level of variation in performance relative to the achievement of objectives."[4] Risks are going to be inherent in any project and organization and to manage risk at the enterprise level, leaders will need to be comfortable living with some risk for each of their objectives. To do so, they will need to establish their risk appetite, the level of risk the organization is willing to tolerate to meet its objectives. The organization may ultimately decide that some risks will have little impact on objectives while exposure to other risks could adversely impact project objectives. Risk appetite and tolerability may be informed by costs associated with loss or wasted assets, stakeholder perception of impact, and the trade-offs between potential gains and losses.[5]

Once identified, risks can be qualified across a 2X2 matrix where project managers and organizational leaders weigh on one axis the **likelihood** of a risk occurring and on the other axis the **impact** this risk could have on the organizations' objectives. For instance, a risk that has a high likelihood of occurring and that would have high impact on the objectives might require more significant risk mitigation planning, contingency planning, and resources than one that is less likely to occur, or that will have a lower perceived impact on the objectives.

Just with identifying risks, qualifying risks also requires a continuous and holistic review. Frequently reviewing with a cross-functional and representative team will enable your team to evaluate existing risks and identify new risks, as well as consider new information that could affect the likelihood and impact these risks could have on the organizations' objectives.

Plan for Risks to Reduce Adverse Impact

Regularly reviewing risks as part of a cross-functional team helps the enterprise prepare and adapt to uncertainty. It enables the organization to bound and mitigate threats and take account of opportunities. This also enables the organizations' leadership or project team to re-allocate resources to combat frequent, high probability, and/or adverse impact risks and constraints.

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[3] https://www.gao.gov/assets/670/665712.pdf

[4] https://www.gao.gov/assets/670/665712.pdf

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220647/orange_book.pdf

Project teams can plan for risks in five ways[6]:

1. **Tolerate:** The enterprise may ultimately decide to withstand the risk. This may be due to several reasons. First, perhaps the risk is very unlikely and falls into an acceptable risk appetite range for the organization. Second, the risk may have very little impact on the project and thus, it may not be worth devoting critical resources to mitigating the risk. Third, the costs of action may far outweigh the benefits. The enterprise may scenario plan for the risk so that it can be prepared to allocate resources or elevate actions to address the risk should likelihood or impact increase.

2. **Treat:** Enterprises tend to manage risk through treatment. In most cases, an organization will put internal controls in place to prevent, limit, or reduce the risk. For instance, an organization may reduce financial or operational risk by segregating duties so that there is a system of review, checks and balances, and clear line of supervision.

3. **Transfer:** Some risks can be transferred through insurance or hiring a third party to take control of the risk. This can be done to reduce the exposure or to ensure that another more capable group that has the requisite knowledge, skills, and abilities, manages the risk. Certain risks, particularly those dealing with reputational risk, cannot be transferred. If a risk is transferred, this adds another relationship to manage and will likely have time, cost, and a dedicated resource associated with this transfer.

4. **Terminate:** In some instances, an organization or project team may be able to eliminate the risk. This can be done by identifying the activity where the risk occurs and terminating that activity. In the public sector, certain activities, services, and products are inherently governmental and may not be transferred. Thus, this alternative is often more common in the private sector and will need a thorough analysis of the trade-offs before being considered.

5. **Take the Opportunity:** This option aligns with tolerating, transferring, or treating risk. In certain circumstances, an opportunity arises that could lead to positive results for the organization or project. For instance, airlines that anticipate a spike in oil may take the opportunity to lock in a set price over a specified time to even out their costs over time and potentially pay a price that leads to long-term savings.

Risks can escalate, and organizations need to have communication channels, systems and processes, and empowered project teams in place that can adeptly adapt to new information and a shifting environment. The best laid plans will fail without the communication conduits, processes and procedures, and people to support these plans.

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[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220647/orange_book.pdf

Conclusion: A Continuous Process

Risk management is a continuous process that allows organizations to assess threats and opportunities. Building processes and communication channels enables organizations to take a holistic, enterprise-wide approach to managing risk. Having leaders that guide, sustain, and are active participants in the risk process will enable the organization to identify, assess, and plan the appropriate response for risks. Organizations will be able to monitor risks, update their risk profile, and adapt to changes in the environment. Proactively sharing risk information, capturing and incorporating feedback from internal and external stakeholders, and continuously managing risk increases transparency, accountability, and capacity to address risks before they escalate into full-blown issues that harm the organization.

About the Author

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Evan Piekara currently works in management consulting as a Senior Manager for BDO Public Sector. Evan supported the launch of BDO's Public Sector Management Consulting Practice by helping government and nonprofit organizations develop strategic plans, establish and analyze performance metrics, and manage change efforts. In this capacity, Evan has collaborated with a range of executive leaders and managed diverse, cross-functional teams to deliver solutions to complex challenges under tight timelines. Evan currently holds professional certifications in Project Management (PMP), Change Management, Conflict Management, Lean Six Sigma, Total Quality Management, Strategic Organizational Leadership, and Continuous Process Improvement. He recently published *Case In Point: Government and Nonprofit,* a guide for those entering public sector consulting.

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