Business performance is driven by successful projects, a guide for board members[1]

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Introduction

In a world where projects are at the heart of developing business resilience, growth and longevity, their success is critical to business performance, (Figure 1). They have the potential to deliver significant business value or threaten the very existence of a company. Despite a growing body of knowledge, the development of project management methodologies and the many advances in project management techniques, poor project performance has not changed noticeably over the past 15 years (EY, 2015). Projects are defined here as temporary organizations that are created for the purpose of delivering a business product or organizational goal in accordance with an agreed business case. Projects are typically undertaken internally to support operational improvements and growth initiatives or on behalf of third parties through contract arrangements. Projects are characterized by a specific start and finish date, budget, objectives, benefits, specification or brief, outputs or deliverables. Unsuccessful projects whether implemented internally or undertaken on behalf of a client can threaten the very existence of a business. They can not only erode profits but may expose the business to litigation, fines by a regulator, demotivate staff, generate disquiet among shareholders, tarnish the business's reputation, make the raising of future finance and winning new work more difficult, disrupt the supply chain and engage project staff longer than planned.

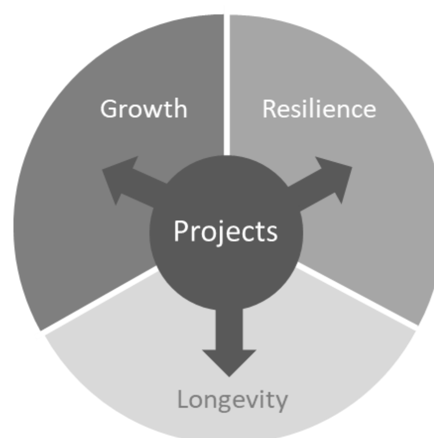

Figure 1: Project success is critical to business performance

To realize their company goals through projects, Boards need to ensure their businesses are both cognizant of and responsive to the volatile market place where risk exposure is growing in complexity. This is accomplished by embedding project risk management capabilities throughout the organization to develop a risk management culture. Project risk management needs to be integrated into day-to-day

[1] How to cite this paper: Chapman, R. (2019). Business performance is driven by successful projects, a guide for board members; *PM World Journal*, Vol. VIII, Issue IV (May)

activities and not undertaken as a siloed parallel activity. There are not many aspects of a board's operation that are as crucial to long-term business success as risk management (Walker, 2012). However, the most serious challenges in embedding risk management can stem from company Boards themselves. Boards must be aware of the changing landscape of risk exposure, define their risk appetite and ensure risk management is at the heart of decision making, avoiding 'group think'. It requires project sanction to be dictated by a satisfactory business case which has addressed optimism bias, assumption analysis and risk exposure. Additionally, Board oversight must ensure that there is sufficient regular scrutiny of risk management practices to assess their maturity and effectiveness. In particular, it entails ensuring risk exposure is managed throughout each project's life cycle (commonly with the aid of Gate Reviews). Figure 2 below describes the sequence of essential activities that Boards should engage in to drive project risk management with the goal of improving project performance.

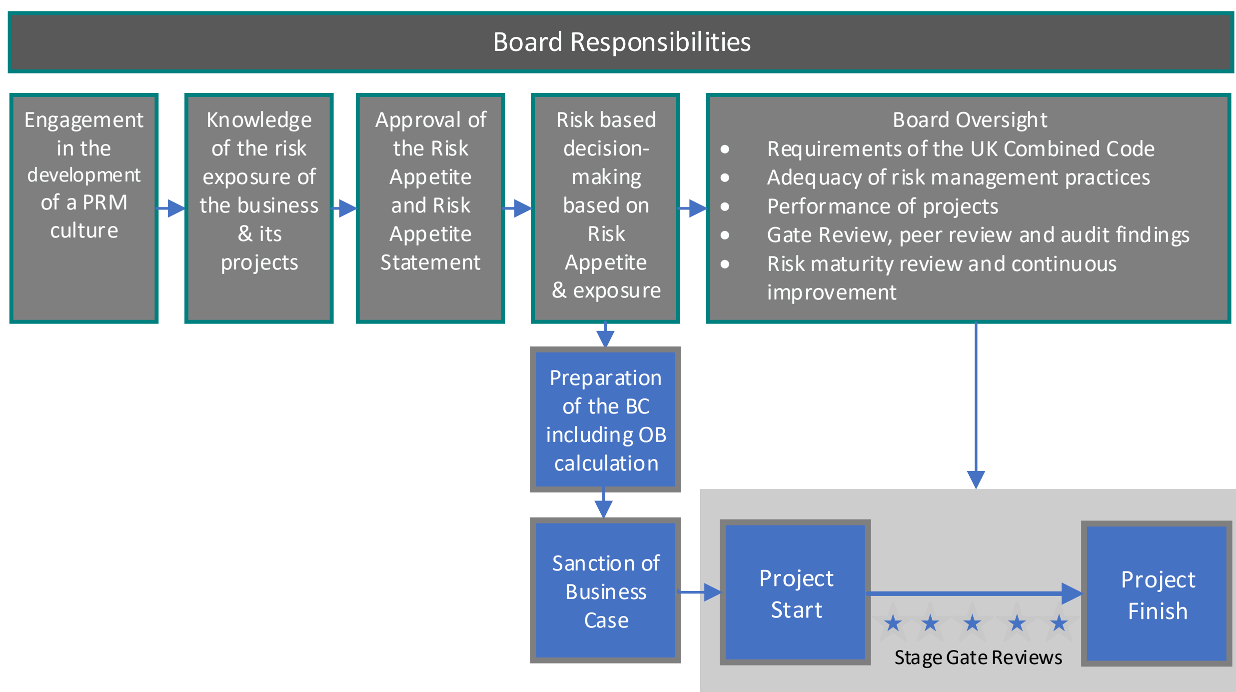

Figure 2: Sequence of Board activities.

Board engagement in project risk management

While everyone in a business is responsible for risk management, primary enablers for embedding effective project risk management are the involvement, behavior and capabilities of the Board. This view is supported by George Keyworth, a former member of Hewlett-Packard's board, who stated that the most important lesson of the last few years is that board members can no longer claim impunity from a lack of knowledge about business risk. When something goes wrong as inevitably it does, board members will be held accountable. The solution is for board members to learn of the potential for adverse events and be sufficiently aware of the sources of risk within the area of business that they are operating in, to be afforded the opportunity to take pre-emptive action (McCarthy et al., 2004). Yet, as identified by former

Anglo-American Chairman, Sir John Parker, many corporate disasters are the result of weaknesses of the Board itself. He highlighted "the Board has the potential to be both a source of risk to the organization as well as an effective means of risk mitigation" (Parker, 2012). Interserve Chairman Glyn Barker disclosed in Interserve's 2017 Annual Report for instance that while the company had been impacted by external events, the unprecedented levels of disruption and significant challenges being experienced were predominantly the result of "self-inflicted mistakes of the past"[2]. McKinsey's 2017 Global Board Survey of over 1100 leading global companies found that their boards spent less than 10% of their time on risk management. McKinsey also observed that "for many nonfinancial corporates, risk management remains an underdeveloped and siloed capability in the organization, receiving limited attention from the most senior leaders" (McKinsey, 2018). A report by Cass Business School (undertaken on behalf of Airmic), highlights a number of risk areas relating to the Board that are potentially inherent in all organizations[3], see Box 1. Perhaps of the greatest significance is 'board risk blindness' and the poor communication of risk.

Box 1
Cass Business School report highlights a number of risk areas relating to the Board that are potentially inherent in all organizations.

- Board risk blindness: risks from board failure to recognise risks inherent in the business, including risks to business model, reputation and 'license to operate', to the same degree that they engage with reward and opportunity;
- Inadequate leadership on ethos and culture: risks from a failure of board leadership and implementation on ethos and culture;
- Defective internal communication: risks from the defective flow of important information within the organization, including up to board level;
- Risks from organizational complexity and change: including risks following acquisitions;
- Risk 'glass ceiling': risks arising from the inability of risk management and internal audit teams to report to and discuss, with both 'C-suite' executives and NEDs, potential dangers emanating from higher levels of their organization's hierarchy, involving for instance, ethos, behaviour, strategy and perceptions.

Board members are accused of simply failing to understand the extent of the dangers to which they are exposed. Nicolas Aubert considers "Board members are particularly culpable, often underestimating the risks that their organizations run" (Aubert, 2012). Boards need to be the custodians and champions of the risk management processes and develop a risk management culture.

Knowledge of risk exposure

Managing the balance between risk and reward is at the very core of business, without taking risks companies cannot generate profits. As observed by Peter Drucker "to take risks is the essence of economic activity" (Drucker, 1977). However, as highlighted by Nicolas Aubert, there

[2] Interserve plc 2017 Annual Report, Chairman's Statement, p4.
[3] Cass Business School (2011) "Roads to Ruin, A Study of Major Risk Events: Their Origins, Impact and Implications".

is a world of difference between calculated risks, taken with foresight and careful judgement, and risks taken carelessly or unwittingly (Aubert, 2012). Successful projects typically have understood and responded to the risks identified, recognising there is always the danger of 'black swan' events which have a very low probability and a very high impact if they materialise, where past events have provided no indication of their possibility (Taleb, 2010). Effective project risk management examines the risk exposure of each of the stages in the project life cycle. Initiation, establishing the project brief, business case preparation, design production, procurement (including the *selection of the procurement route, choice of contract, selection of contract conditions, preparation of the contract documents, selection of tenderers, determining the desired balance of risk transfer & retention* and *tender appraisal*), execution and handover are all potential sources of risk. While examination of the past is not always a true indicator of the future, a review of case studies provides a rich source of information on the types of risk events that occur during the common project stages. Included in Table 1 below is a summary of the primary risk(s) that materialised on a number of high-profile projects recorded in "The rules of project risk management, implementation guidelines for major projects" second edition[4]. These risks had very significant ramifications for the respective projects, in some cases leading to their cancellation.

Project	Country	Project life cycle stage	Primary risk(s) that materialised
FiReControl project	UK	Business Case	Business case not agreed with key stakeholders
Jubilee Line Extension	UK	Business Case	No clear business case
Great Western Route Modernisation	UK	Business Case	Project not driven by business case, overly aggressive schedule, unrealistic budget, inability to manage the challenges of new technology.
New Denver International Airport	USA	Project brief	Inability to integrate novel technology (automated baggage-handling system)
West Coast Route Modernisation	UK	Project brief	Inability to manage the challenges of new technology (ERMTS)
The national programme for IT in the NHS	UK	Project brief	Underestimation of project complexity
Airbus 380	France/ Germany	Design	Management impaired by overly complex organizational structure. Lack of rationalisation of CAD systems.
Project SCOPE	UK	Design	Underestimation of project complexity
The millennium train project	Australia	Procurement	Adverse/unfavourable risk retention/transfer balance
The Big Dig	USA	Procurement	Inappropriate choice of contract
The Holyrood project	UK	Procurement	Inappropriate choice of contract
Portcullis House	UK	Procurement	Breach of procurement rules
e-borders contract	UK	Procurement and execution	Inadequate tender evaluation, overly aggressive schedule, overambitious scope

Table 1: Risks that have materialised on major projects

[4] Chapman, R (2019) "The rules of project risk management, implementation guidelines for major projects" second edition, scheduled for publication towards the end of 2019.

Risk capacity and appetite

Risk capacity is the maximum amount and type of risk an organization is able to bear in pursuit of its business objectives. The key word is 'bear'. For instance, what is the financial exposure that would put the existence of the business in jeopardy. What would the shortfall in income have to be before the business could not pay employees, suppliers, sub-contractors, landlords, insurers, utility providers, HMRC and other parties. In addition, a primary consideration for Boards is what is their 'risk appetite'. There are a number of definitions of risk appetite. *ISO 31000: 2009 "Risk management-principles and guidelines"* for instance defines risk appetite as the "amount and type of risk that an organization is prepared to pursue, retain or take". The working description of 'risk appetite' adopted here is as follows: *The type and extent of the principal risks an organization's board is willing to accept in pursuit of its strategic objectives* (Chapman, 2018). The challenges for any business include: agreeing a definition for risk appetite; determining metrics to measure it; making it relevant for business units on a day-to-day basis; implementing it; and ensuring its enforced. The board must consider the risk exposure of individual projects within the context of the organization's overall risk appetite to ensure that projects which appear profitable are not undertaken at the expense of projects with a greater likelihood of success or exposing the organization to significant unmanageable risks. The contents of a 'risk appetite statement' were discussed in a previous article in the PMWJ (Chapman, 2018). Risk appetite sets the boundaries which form a link between strategy, growth targets and risk management. Different companies have a different perspective on appetite depending on for instance their level of borrowings, the finance costs of their debt burden, cash reserves, number of competitors and market share. Successful companies will have a 'privileged' position in terms of appetite. For instance during the 2016 Charlie Rose interview, founder of Amazon, Jeff Bezos stated: "We are very happy to invest in new initiatives that are very risky, for five to seven years, which most companies won't do. It's the combination of the risk-taking and the long-term outlook that make Amazon, not unique, but special in a smaller crowd."

Risk-based Board decision making

Which internal projects to pursue or which contracts to engage in with third parties will depend on the board decision making processes. Key questions will include what is: the cost of the project; the degree of certainty of a successful outcome, the potential reputational damage if the project fails; the assessed risk exposure compared with the company risk appetite; and the criticality of the project or contract to the business. The decision on which projects to select for implementation should be based on an evaluation of the risks that will be retained and transferred together with an understanding of the aggregate risk exposure of the retained risks.

As identified by Alison Hogan, managing partner, Anchor Partners, effective decision-making "requires collaborative, independent-minded individuals offering constructive challenge and support in an environment of trust, openness and transparency" (Hogan, 2012). However, Boards are fraught with extensive interpersonal dynamics, like any other group of people (Carver, 2006). The behavior of board members and particularly the group dynamics during decision making are as important as the mix of skills and experience of the individual members. Optimal board performance occurs when chairmen understand group dynamics and foster

transparency, openness and challenge to reach informed decisions (Chapman, 2011). The human social dynamic within a group of individuals sees individuals agreeing to, or failing to oppose a group decision even though they are not satisfied with the answer to the questions or the group decision, (Cairns, 2003). Such dysfunctional boards can fall into what has been termed 'group think', where members reach a consensus without critically challenging, assessing and evaluating ideas. This form of herd behavior was prevalent among the boards of banks during the financial crisis of 2007-2009. As discussed by Chapman (Chapman, 2011), the term 'group think' was coined by psychologist Janis Irving in the 1970s. It was adopted to describe the process in which a group can make irrational or bad decisions as each member of the group attempts to conform their opinions to what they believe to be the consensus of the group. Board members differ in their degree of comfort in challenging other people's views, their ability to express their point of view and the personal agendas they bring to a meeting. When 'group think' is present, independent thinking is sacrificed in pursuit of group cohesiveness. Members of the group impose self-censorship succumbing to direct pressure to conform possibly to avoid being considered disloyal to the CEO or labelled as someone who is not a 'team player'. Full time board members or Non-Executive Directors (NEDs) may be reluctant to act according to their own information and considered opinions fearing that any alternative view may damage their standing, their relationship with fellow board directors or their longevity with the business. Hence directors will 'follow the herd' if they are concerned about how others will assess their knowledge, experience, allegiance and ability to make sound judgements. Following a report completed by Exeter Business School on boardroom diversity, Tracy Vegro, Financial Reporting Council (FRC) Executive Director of Strategy and Resources said: "There is almost universal acceptance that diversity contributes to more effective decision-making and mitigates the danger of group think. Some of the findings of this report are disappointing and FTSE 350 companies should provide fuller disclosures on all diversity"[5].

It is also suggested that Board members may be influenced by what business school professor Philip Rosenzweig has called *The Halo Effect* (Rosenzweig, 2008). It is described as a cognitive bias that affects our judgement. Given the palpable hunger for clear messages about the determinates of business success that provide insights and understanding, stories of business success consistently exaggerate the impact and influence of the leadership style and management practices of their chief executive officer (CEO). In essence they are illusory. The halo effect is so powerful that CEO's are extremely influential at times of collective decision making that proposals are not sufficiently challenged. A business with a CEO perceived to have brilliant vision and extraordinary competence, will not provide a guarantee for future business profitability, growth and longevity. The market, circumstances and context of the business may have been the key drivers of success.

Boards members must select the projects to pursue which are the most beneficial to the business and not be persuaded by group think, dominant personalities, personal agendas, proposed short term gains or perceived threats to the security of their position. Companies must carefully consider the amount of risk that they are prepared to accept through the contracts that they

[5] Financial Reporting Council (2018) "Research shows that more companies should treat diversity as part of business strategy"; 17 September 2018. These comments were made by Tracy Vegro, FRC Executive Director of Strategy and Resources.

engage in. The troubles encountered by Carillion, Interserve and Serco are partially attributable to the UK government's considerable transfer of risk to the private sector (Chapman, 2019). Serco's chief executive Rupert Soames told MPs on the Public Administration Committee, (during their inquiry in 2017 into the way the civil service works), that Serco had succumbed to pressure to accept unhealthy levels of risk. He said "suppliers, I think, through foolishness and incompetence, certainly on our part on a couple of things, were foolish enough to say 'yes'"[6]. The company most recently to make the headlines is Debenhams which has gone into administration. Commentators have attributed its failure to 'risk blindness'. Debenhams, a "bricks and mortar" retailer, had not adjusted to a customer base that had shifted to online shopping and had lost competitiveness. Debenhams struggled with mushrooming debt, 50 underperforming stores and high rents.

Optimism bias

Board members need to be knowledgeable of the tendency for optimism bias to affect predictions about project outcomes as part of ensuring projects embarked upon do not contribute to eroding business performance. Optimism bias calculations should feature in decision making mechanisms in terms of which projects to pursue and which projects to disregard. Optimism bias is described as the demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters. Specifically, there is a tendency for a project's capital costs, operating costs and duration to be underestimated and/or the project benefits to be overestimated (HMT 2018). HM Treasury recommends that this tendency is explicitly accounted for in all project appraisals where it can arise in relation to capital costs, works duration, operating costs and under delivery of benefits (HMT, 2018). Optimism bias is a form of *reference class forecasting* which predicts future outcomes based on the outcomes for a group of similar past projects. This form of forecasting is succinctly described by Bent Flyvbjerg, Professor of Major Programme Management at Oxford University's Saïd Business School, (Flyvbjerg, 2008), as follows:

> "*reference class forecasting* is based on theories of planning and decision-making under uncertainty that won Princeton psychologist Daniel Kahneman the Nobel prize in economics in 2002. As part of their work, Kahneman and Tversky uncovered a systematic fallacy in planning and decision-making under which people underestimate the costs, completion times, and risks of planned actions, whereas they overestimate the benefits of the same actions. This would later be known as "the planning fallacy", and Kahneman argued that this fallacy stems from actors taking an "inside view" focusing on the constituents of the specific planned action rather than on the outcomes of similar actions already completed. Kahneman also identified a cure to the fallacy, namely taking an "outside view" on planned actions using distributional information from previous, similar ventures"

[6] Civil Service World (2017) "Serco chief: government saw it as 'badge of pride' to transfer 'massive' risk to outsourcers". Matt Foster on 24 January 2017. (Based on The Public Administration and Constitutional Affairs Committee questioning of Rupert Soames, Chief Executive of Serco, on the structure and organization of the Civil Service 23 January 2017).

The two main causes of optimism bias in estimates of capital costs are recorded as:

- poor definition of the scope and objectives within a project's business case, due to poor identification of stakeholder requirements resulting in the omission of costs during project costing; and
- poor management of projects during both the development and implementation phases, such that schedules are not properly assessed/adhered to and risks and assumptions are not adequately considered or mitigated.

Optimism specific to cost is expressed as the percentage difference between the estimate at the appraisal stage and the final outturn cost. Likewise, optimism specific to time is expressed as the percentage difference between the schedule duration at the appraisal stage and the final outturn duration.

Optimism bias is commonly accounted for on UK government projects. HM Treasury (UK) advise that to reduce this tendency (of bias) "appraisers should make explicit adjustments in the form of increasing estimates of the costs and decreasing and delaying the receipt of estimated benefits". HM Treasury recommends that adjustments for optimism bias should be empirically based, adopting data from past projects or similar projects elsewhere and adjusted for the unique characteristics of the project in hand. Methodologies developed to address optimism bias are typically based on the assessment of previous projects and HM Treasury guidance. Steps must be taken to adjust the Upper Bound Optimism Bias figure for the unique characteristics of the project under examination. In addition, Treasury recommends the use of sensitivity analysis for testing assumptions about both expected benefits and operating costs. These assessments as well as optimism bias calculations are delivered through the Business Case.

Business case

The Board must adopt the philosophy that a project should be driven by its Business Case. If a satisfactory Business Case does not exist, a project should not be started. Regrettably this is not always the case, as identified by the case studies included in Table 1. In addition, if a project's business case is incomplete, unclear or not accepted by key stakeholders the project should not be commenced. If a Business Case is valid at the start of a project, but its justification disappears once a project is underway, the project should be stopped. For instance, if the costs of a project escalate overtime to the point where they exceed the perceived benefits, there is no rationale for continuing the project. Hence a Business Case is typically commenced at the beginning of a project and maintained throughout the project life cycle, being reviewed periodically against the status of the project. Arguably the Business Case is the most important document on a project in that it drives decision-making processes and is used continually, comparing the project's progress against the project's goals and benefits. For major projects, Business Cases may require a significant effort in their preparation, review and approval and should be authored by an 'experienced pair or pairs of hands'. The effort expended will most likely be influenced by the level of investment sought or the significance of the project to the business. The primary aim of a Business Case is to provide the reasons and justification for the project in the first instance, and contain information on the benefits, costs, timeframe and risks involved. It forms the basis

for effective decision making. The content of Business Cases varies, however, as a minimum it should contain the *reasons* why the project is needed, a description of the *options* considered, the *benefits* expected, the *cost* and *timescale*, an *investment appraisal* and its *evaluation* together with a register of the *risks* capturing the probability and impact of the risks. Like the costs, the risk exposure should be periodically assessed so ensure the potential risk exposure does not totally overshadow the perceived benefits.

In summary business cases are evaluated to ensure:

- the investment has relevance, value and significance
- the proposed organization is adequate to support implementation
- the business has the capability to deliver the benefits
- the business's resources are allocated to the greatest value opportunities
- projects with inter-dependencies are undertaken in the optimum sequence

Box 2 below describes the minimum content of a business case. The list is not intended to be exhaustive and there may be other elements required depending on the special requirements of a project.

BOX 2
A business case should be assessed for its completeness in terms of the following minimum content:

- Budget funding secured
- Confirmation that the project is practically deliverable and that the degree of complexity is understood
- Clear description of the options considered with justification for the ruling out of options
- Sensitivity analysis including worst case scenario
- All the costs and benefits quantified
- Explanation of any costs or benefits not quantified
- Description of stakeholder engagement
- Risks, constraints and dependencies identified and an approach to response planning described
- Wider impacts assessed in terms of say competition, environment, safety, legislation and compliance
- Provision for ongoing risk, cost, contingency and change management
- Optimism bias included and aligned to risk (i.e. no duplication)
- Contingency assessment and provision for cost overruns
- Arrangements for peer reviews
- Project delivery dates and milestones
- Selected procurement route and contract type
- Selected project management methodology
- Contractual key milestones and delivery dates

Omission of any one of these subjects (bullet points) can lead to project failure as demonstrated by high profile UK Government project terminations or overruns.

Stage Gate Reviews

Stage Gate Reviews provide Boards with project 'control points' where projects are temporarily halted until they are given the 'green light' to proceed. It provides a Board with the opportunity to understand the current risk exposure of a project, the degree of risk removal or mitigation accomplished to-date and if the aggregate value of the remaining threats, untreated, would invalidate the business case. The caveat to this assessment would be that it would be highly unlikely that all of the threats would materialize or that it would not be possible to successfully treat the risks to some degree. In summary Stage Gate Reviews are decision gates which occur at the end of intermediate project stages to determine if a project should proceed to the next stage. Stage Gate Reviews are a "peer review" carried out by an independent individual or team from outside the project who use their knowledge and experience to examine the progress to-date and the likelihood of the project being successful. The review uses detailed desk top studies of the existing project information and a series of interviews with the project team. The review team's experience provides a valuable additional perspective on the issues facing the project team and provides an external challenge as to whether the current phase has been completed or not (and if not, what is outstanding). Critically the review will recommend whether the project should move to the next project phase or not and hence whether further funds should be committed to the project. A Review Plan should describe what reviews will be undertaken and the composition of each review stage.

Board oversight of risk management

On the premise that projects are critical to business performance and the success of projects hinge on effective risk management, board oversight of risk management practices is paramount. The Board need to understand the 'maturity'[7] of the business's risk management practices and whether routine audits and Stage Gate Reviews are taking place. The effectiveness of project risk management will depend on a number of factors such as leadership, culture, compliance, continuous improvement, context, people, processes and systems (software). Perhaps the most important factors are leadership and culture. Unless the Board mandates risk management, demonstrates its commitment to its implementation and stipulates the inclusion of risk status updates within (for instance) option analysis, progress reports, progress meetings, peer reviews, gate reviews and contingency assessments, an appropriate risk culture will not be developed.

In addition, for those companies listed on the UK stock exchange, they have an obligation to comply with the UK Corporate Governance Code 2018 or explain any departures, with a specific reference to reporting requirements. Box 3 provides a summary of the Code as it applies to risk management. The Board needs to participate in identification and assessment of the principal risks, review the effectiveness of the risk management system and keep up-to-speed with the current risks. The board needs to be clear about how it will assess 'effectiveness'. Companies

[7] The meaning of maturity as intended here, is described in Chapman, R. (2018). A *M.A.T.U.R.E.* way to describe highly developed project risk management capabilities, PM World Journal, Vol. VII, Issue IX - September

that pay 'lip service' to risk management and Boards that do not integrate risk management into their decision making, do so to their detriment (Chapman, 2019).

BOX 3
THE UK CORPORATE GOVERNANCE CODE JULY 2018

- THE UK Corporate Governance Code dated July 2018 was published by the Financial Reporting Council.
- The Code contains an updated set of *Principles* which describe corporate governance practices to attain long-term sustainable success.
- The Code considers that by applying the *Principles* and the more detailed *Provisions* companies can demonstrate through reporting how their governance practices contribute to their long-term sustainable success and the achievement of objectives.
- The tenets of the first version of the UK Corporate Governance Code (the Code), published in 1992 by the Cadbury Committee, remain unchanged:

  - → Corporate governance is "the system by which companies are directed and controlled".
  - → Boards of directors are responsible for the governance of their companies.
  - → Shareholders are responsible for the appointment of the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

- The new Code applies to accounting periods beginning on or after 1 January 2019.
- The Listing Rules[8] require companies to make a statement of how they have applied the *Principles* of the Code for the benefit of shareholders.
- The Code suggests that company reporting should cover the application of the *Principles* of the Code.
- The 2018 Code focuses on the application of the Principles.
- The *Principles* are listed under 5 headings:

  - → 1 Board leadership and company purpose (*Principles* A to E);
  - → 2 Division of Responsibilities (*Principles* F to I);
  - → 3 Composition, succession and evaluation (*Principles* J to L);
  - → 4 Audit, risk and internal control (*Principles* M to O); and
  - → 5 Remuneration (*Principles* O to R).

- The Code contains *Provisions* numbered 1 to 41.
- Provisions contained within the Code relevant to risk management:

  - → *Provision* 1: The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how **opportunities and risks** to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy.
  - → *Provision* 28: The board should carry out a robust assessment of the company's **emerging and principal risks**. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.
  - → *Provision* 29: The board should monitor the company's **risk management and internal control systems** and, at least annually, carry out a review of their effectiveness and report on that review

[8] The Listing Rules are a set of regulations applicable to any company listed on a United Kingdom stock exchange, subject to the oversight of the UK Listing Authority (UKLA). The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public, including the requirement to comply or explain noncompliance with the UK Corporate Governance Code, the requirements of information in a prospectus before an initial public offering of shares, new share offers, rights issues, disclosure of price sensitive information, or takeover bids for companies.

in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

→ *Provision* 31: Taking account of the company's **current position and principal risks**, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

Reporting

The effectiveness of the decisions that Boards make will be strongly influenced by the timing and quality of the information they receive. Hence Boards need to receive regular reports on the 'health' of their projects so that they may make prompt decisions about emerging risks, proposed changes (in terms of say scope, resources, budget, or timeframe), contract disputes, approvals or litigation. In addition, those compiling the annual report will require as a minimum the information set out in the *Provisions* within the UK Corporate Governance Code July 2018. In particular *Provisions* 1, 28, 29 and 31. If those personnel contributing to the risk assessment are not diligent or transparent, or worse, economic with the truth, (in terms of the potential downside of critical known risks), the reporting will leave the business and the shareholders ill prepared. What the *Provisions* do not stipulate is an appropriate frequency for the identification and assessment of the emerging and principal risks. Given the speed of change in the environment, businesses are deluding themselves if they consider six-or twelve-month review intervals are adequate.

Summary

Operational resilience, business growth and longevity are now commonly delivered by projects. Projects are any activity with discrete objectives, a timeframe, budget, a tailored organization and specific benefits. Their success is critical to business performance. There is a now a strong body of evidence to support the view that project success in turn is driven by project risk management. However, the difficulties encountered by Carillion, Interserve, Serco and more recently Debenhams illustrate that Boards are not addressing risk exposure adequately. This paper has proposed that Boards must be aware of the changing landscape of risk exposure, define their risk appetite and ensure risk management is at the heart of decision making, avoiding 'group think' and herd behaviour. In addition, it is suggested that effective risk management calls for project sanction to be dictated by a satisfactory business case which has addressed optimism bias, assumption analysis and risk exposure. Additionally, Board oversight must ensure that there is sufficient regular scrutiny of risk management practices to assess their maturity and effectiveness. In particular, it entails ensuring risk exposure is managed throughout each project's life cycle (commonly with the aid of Gate Reviews). Also, boards are dependent on timely, open, transparent and honest reports of risk exposure to ensure business decisions are taken in an optimum 'window' of time.

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Robert J Chapman is an international risk management specialist and Director of Dr Chapman and Associates Limited. He has over 20 years consultancy experience derived from providing risk management services in the UK, the Republic of Ireland, Holland, UAE, South Africa, Malaysia and Qatar on multi-billion programmes and projects. In addition, he has provided project and risk management training in Scotland, England, Singapore and Malaysia. Robert has worked in the rail, pharmaceutical, energy, road, aviation, water, property, media, heritage, leisure and marine sectors. He is the author of the texts: 'Simple tools and techniques for enterprise risk management' 2nd edition, published by John Wiley and Sons Limited, 'The Rules of Project Risk Management, implementation guidelines for major projects' published by Gower Publishing and 'Retaining design team members, a risk management approach' published by RIBA Enterprises. He holds a MSc in Construction Management and a PhD in Risk Management from the University of Reading and is a fellow of the IRM, APM and ICM and a lapsed member of the RIBA. Robert has passed the M_o_R, APM and PMI risk examinations. Robert is an external PhD examiner.

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