# Rejecting Risk Management? Prepare to Manage Crises!

**Oliver F. Lehmann**

*"Risk is uncertainty that matters."*
*– David Hillson*


## Summary

Many projects suffer from a commitment to active risk management. A look over the fence to another discipline, political management, shows, what the causes for such behavior may be, and the detrimental consequences it can have on all affected stakeholders.

## The High Price of Discounting Risks in Projects

Risk management in projects begins with a straightforward decision: The decision actually to do it. Here is an example:

In 2016, the British government made a political decision to leave the European Union (EU).[1] One could call this project one of the most prominent organizational change projects on a global scale in the last decades. The implications were enormous for people in the United Kingdom and the European Community on an economic and cultural level, and the freedom of movement inside Europe would be massively restricted.

This process was named "Brexit" and was based on a public referendum (following the vague wording rather a survey than a referendum) on 23 June 2016, in which 51.9% of the respondents voted "Yes", while 48.1% voted no[2].

By the end of 2020, the separation process was finished. The European Union and the United Kingdom (UK) had a contract describing how both would work together in the future to protect peace in Europe and allow their citizens a residual degree of freedom of movement and cross-border business.

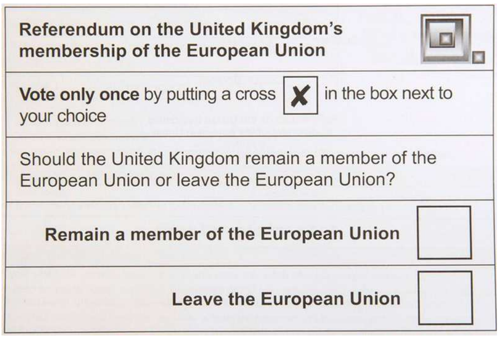


*Figure 1: The referendum questions*

One would assume that for a project of this magnitude and consequences, the British government would have done a meticulous risk analysis. One would further think that they had assessed foreseeable impacts, talked to individuals and organizations affected and involved, listened to businesses, and revisited the pros and contras of the discussion that led to the United Kingdom's joining the EU[3] in the year.

Nothing of that happened. Any discussion of the threats that Brexit may bring to the UK was immediately suppressed by calling it "Project Fear" and insulting the individuals asking for the discussion as "Bremoaners". The debate became more and more emotional, and public actions such as the burning of EU[4] flags expressed nationalistic sentiments and showed how hard it would be to have a serious discussion of threats and opportunities.

Meanwhile, many of the predicted threats that should have been discussed have turned into reality:

- The formerly smooth transport of goods and people between the UK and the EU is heavily disrupted; as for the EU, the UK is now a foreign country outside the Union and vice versa, leading to an increased demand for paperwork, time losses, and costs.

[1] The intention of this article is not to discuss the political view but use the Brexit project as an example of denial of risk management.

[2] (BBC, 2016)

[3] To be more accurate: The UK joined the EU's predecessor organization, the European Economic Community (EEC).

[4] (Jolly, 2000)

The effects are easily visible in traffic congestions around the British channel, where truck drivers and holidaymakers are stuck for hours in congestions[5].

- Corporations are considering moving their UK-based European headquarters from the UK into the EU (Ranscombe, 2020). Some have already done that, others have reduced their UK staff, and some even went bankrupt[6].

- The British economy was hit harder by the Covid pandemic than any other G7 country, with a decline of 9.9%[7] in 2020.

- Europe's overall stability was weakened, which was a motivating factor for Vladimir Putin to invade Ukraine.

- The UK's integrity is also in jeopardy. Movements in Scotland and Northern Ireland to leave the United Kingdom have gained new momentum and majorities in their population.

The current government composed solely of Brexit promoters is busy trying to disconnect these effects from the course and blames other causes, preferably accusing their French neighbors. One should also note that while I am writing these lines, the UK has been in a government crisis for the third time since 2016.

At the same time, opportunities that Brexit promoters had promised vaguely have not been realized. Most British citizens say in recent surveys that it was a mistake to leave the EU.

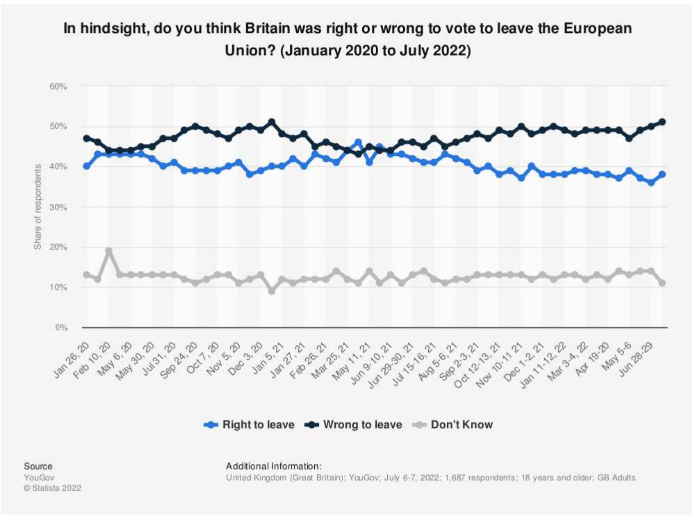


*Figure 2: According to surveys, most British citizens see Brexit today as a mistake.*
*Source: Statista (https://www.statista.com/statistics/987347/brexit-opinion-poll)*

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[5] (Picheta & Goillandeau, 2022)

[6] (Mahmood, 2019)

[7] (Partington, 2021)

## What about Businesses?

The rejection of active risk management is a common observation in corporations too, and many effects can be observed there that are similar to the situation around Brexit:

- Managers often disregard identifying and managing risks as fear-mongering and alarmism.
- Strong sentiments and a feeling of being invincible make proactive and fact-based discussions hard, often impossible.
- Add ideologies to these sentiments and almost religious self-conviction.
- Individuals who wish to discuss risks early are discounted and often personally attacked[8].
- Signals that risks are about to occur are enthusiastically ignored.
- When the risks occur and lead to crises, people find explanations that these crises either do not exist or are unrelated to the unhandled risks.
- There seems to be no learning process. While these managers should learn from failures and increase their risk awareness, they often cement their old stubborn behavior and continue rejecting risk management.

## What about Project Business?

Project Business is high-risk business for all parties involved.

Project risk is omnipresent; it lies in the nature of all types of projects. However, in Project Business, other levels of risks occur, in particular:

Legal risks: Come from the obvious worst case in a project: Litigation.

In an internal project, it is generally possible to keep things that went poorly in the project internally. The worst case is that the project ends under the management rugs, just to ensure that the embarrassing mistake is not taken into the public domain.

[8] Psychology knows this as "Cassandra syndrome". In Greek mythology, the God Apollon gave Cassandra the blessing of clairvoyance, but also the curse that no one believed her predictions (Parvez, 2021).

Litigation means that the public may learn of the mistakes. And the final outcome of a lawsuit is uncertain. As the ancient Romans said: *Coram iudice et in alto mari sumus in manibus deorum* (At court and on the high sea, we are in the hands of the gods).

Commercial risks: For the contractor, profitability and liquidity may be at stake. When unexpected situations lead to additional costs that are not billable to the customer, the project's margins may turn negative—the project makes a loss.

It is also an everyday necessity for contractors to lay out money for the customer, but their credit line is not endless. Their ability to finance the customer's project is limited by the negative cash flow from projects the organization can endure without becoming insolvent.

There are also commercial risks on the customer's side, such as being bound to a contractor who is not able or willing to meet contractual obligations.

Both customers and contractors share the risk that the other party may go bankrupt, running the project into deep crisis.

## How can You Manage these Levels of Risk?

Various books describe different approaches to risk management in projects. For this article, I am using the Knowledge Area "Project Risk Management" from the "Guide to the Project Management Body of Knowledge (*PMBOK* Guide)", published by PMI, Project Management Institute, see Figure 3.

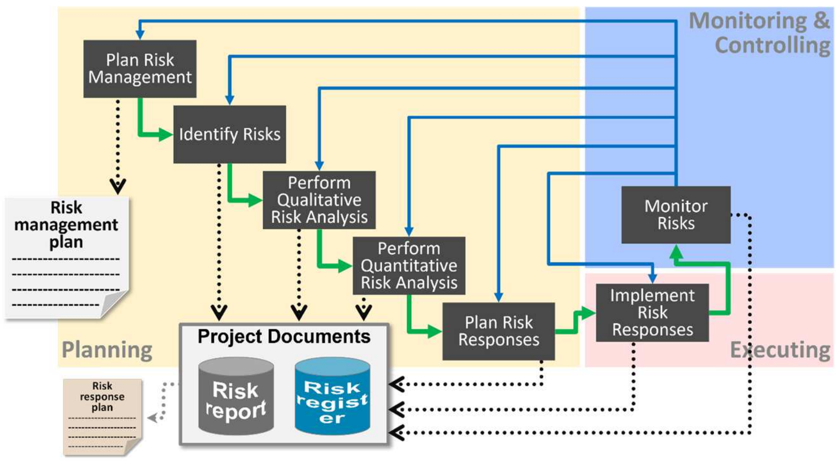


*Figure 3: The complex and iterative approach to risk management described in the PMBOK Guide 6th Edition*

The knowledge area consists of seven processes, five belonging to the 'Planning' group of processes, signifying this approach's fundamentally proactive and iterative nature.

Often, the most significant step is at the beginning, when a Risk management plan is created. Fundamentally, this step includes the commitment to perform active risk management. The Risk management plan then describes the roles, responsibilities, methods, tools, and more to implement this commitment, which is getting implemented in the following processes.

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# About the Author

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**Oliver F. Lehmann**, MSc, ACE, PMP, is a project management educator, author, consultant, and speaker. In addition, he is the owner of the website Project Business Foundation, a non-profit initiative for professionals and organizations involved in cross-corporate project business.

He studied Linguistics, Literature, and History at the University of Stuttgart and Project Management at the University of Liverpool, UK, where he holds a Master of Science Degree (with Merit). Oliver has trained thousands of project managers in Europe, the USA, and Asia in methodological project management, focusing on certification preparation. In addition, he is a visiting lecturer at the Technical University of Munich.

He has been a member and volunteer at PMI, the Project Management Institute, since 1998 and served as the President of the PMI Southern Germany Chapter from 2013 to 2018. Between 2004 and 2006, he contributed to PMI's *PM Network* magazine, for which he provided a monthly editorial on page 1 called "Launch," analyzing troubled projects around the world.

Oliver believes in three driving forces for personal improvement in project management: formal learning, experience, and observations. He resides in Munich, Bavaria, Germany, and can be contacted at oliver@oliverlehmann.com.

Oliver Lehmann is the author of the books:

- "Situational Project Management: The Dynamics of Success and Failure" (ISBN 9781498722612), published by Auerbach / Taylor & Francis in 2016

- "Project Business Management" (ISBN 9781138197503), published by Auerbach / Taylor & Francis in 2018.

His previous articles and papers for PM World Journal can be found here:

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