



Risk to Performance

Thursday 9 July 2009, United Utilities, Liverpool

This was a joint meeting with the APM Risk Specific Interest Group. Our topic was intended to cover an area which receives relatively little attention, and our speakers covered a broad range of topics.

The day was hosted by United Utilities at their Sandon Dock conference centre in Liverpool. This was an excellent facility providing plenty of room for lunch and networking, as well as the presentations themselves. We are very grateful for their hospitality, especially as it was our first opportunity to hold a meeting in Liverpool. The IRM North West group is also very grateful to the APM for taking much of the administrative load and also for finding replacement speakers: we had an unusual number of withdrawals.

Finally of course we should thank the speakers who, as ever are freely giving their time and ideas. The group could not exist without them. The presentation slides are on the website alongside this note which provides a brief summary (with the responsibility for any errors or misinterpretations being mine alone!).

First up was David Chard of OTC Optima, a company which specialises in project risk analysis and earned value management (EVM). EVM is a key element of project control that allows project performance to be consistently measured, monitored and effectively managed. The Performance Measurement Baseline Review is key EVM activity for validating the project plan and later checking the project is on track and is likely to reach a successful conclusion. David's talk gave us a detailed insight into how this review is carried out. The process involves substantial data analysis and in depth interviews, and produces a report with recommendations for future action. Based on this OTC Optima have developed a EVM Maturity Assessment technique. During questions David talked about the relationship between this and the OGC gateways process. The focus here is on the project itself whilst the gateway approach also explores benefit realisation, a key aspect of performance.

Next on was John Knott of John Knott Associates. His talk was based on many years of experience in MoD projects and took on the topic of the performance of risk management itself. He contrasted risk management maturity (are we doing the right thing?) with risk management performance (are we doing it right?). He discussed a number of possible measures of risk management performance, many of which he showed to be inadequate or meaningless. He emphasised the importance of a structured approach to risk identification to ensure completeness and then developed the theme that a large number of risks are due to a relatively small number of underlying causes. From this he suggested that one measure of risk management performance is the ratio of risks to actions. This means the focus is not risk management but management of



common causes and John concluded by presenting some software which supported this approach. During questions it was suggested that these were input measures, not output performance measures. John agreed, noting that he had premised the discussion on 'doing the right things'; this was 'doing them right'.

First after lunch was Peter Campbell, the chairman of the APM SIG, who stepped in at short notice following a very late speaker withdrawal. Peter's focus was how project performance should be measured. Taking a journey as an example, he demonstrated how it was necessary to make tradeoffs between the various performance attributes - destination, route and method. (These are metaphors for the performance of any project.) The preferred solution changes as the tradeoff with time and cost is introduced. Peter was questioned as to whether a scoring approach is realistic when requirements are typically fixed - you either meet them or you don't. Peter agreed but argued that scoring is a better way of determining the requirement compared with the more ad hoc approaches often used.

Following this Val Jonas of Risk Decisions spoke on the intriguing topic of 'risk admiration or risk performance?' In her experience many organisations did a reasonable job of risk identification and analysis, but then sat back and admired the results rather than using them to implement effective risk management. Val defined performance risk as 'delivering less than promised' and argued that it could be measured in terms of the cost and time impact necessary to rectify any shortfall. So to escape the 'admire' trap it is necessary to involve stakeholders in the risk management planning, as well as focussing on implementation, of course. In discussion Val advised that one way to move the culture away from admiration is to provide concrete support (eg financial backing) to managers who have a good record of generating risk management actions and implementing them.

The last formal presentation was by Matthew Leitch who asked what happens when you integrate risk and performance management. Matthew's context was performance management in business-as-usual organisations rather than project-based ones. Typically they use balanced scorecards and other techniques. He noted examples of where critical success factors developed under performance management mirrored risk registers. He thought risk management could be made better by making it simpler and more natural. Part of this might involve the development of integrated risk models based on Kaplan and Norton's strategy map, for example. This underlines the point made earlier that a structure is needed to generate effective models. Such models better reflect the uncertainties which dominate most risk registers compared with cliff-edge events, and are therefore more natural, Matthew argued. Taking this a stage further, his vision of future risk analysis involved progressively developed mental models which serve as the source of the risk register which does not need a separate existence. As these models are progressively developed they generate flows of risk management actions. We don't wait for the analysis to be complete before implementing the obvious measures.

Following on from this, Matthew facilitated a workshop. The audience was split into groups and each was asked to identify one thing they had done to simplify risk/performance management



and one thing they could do (and what was needed to make it happen). The teams worked animatedly on the task and among the responses were, for those already implemented:

- the development of an iterative process between the board's strategy development and business unit risk registers
- the use of risk language for decision making: 'no new meetings', 'use risk as the agenda'.
- improving the effectiveness of inventory control using a risk-based approach

and those with potential:

- using KRIs alongside the KPIs which people understand
- using the common cause concept to understand performance breakdown
- using SWOT analysis instead of risk registers to bring about cultural change in the way some local authority organisations manage risk.

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