Enterprise Risk Management: Issues and Opportunities in Communication

A conversation with: Thomas Fletcher
Head of Data Informed Transformation, Chaucer

Introduction

Thomas Fletcher

Partner: Data Informed Transformation

A key challenge for risk managers is communicating their work, findings and recommendations to stakeholders and the wider business.

Risk information is essential for successful project management, and the quality of its communication can mean the difference between a project being delivered on time and within budget and failing to do so. But traditional risk management has commonly fallen into the trap of compartmentalising different areas of the organisation and separating risk from project management or other business activities. At worst this can lead to miniature, self-sustaining cultures of risk practice all working independently of each other.

Communication of risk is vital, especially when a business is working in siloes, but all too often risk messages are not given the priority they merit or are simply not properly expressed – exposing the business to levels of risk that could have been easily lowered, or even entirely mitigated.

We got together with Thomas Fletcher, The Chaucer Group's Partner, Head of Data Informed Transformation, to discuss where businesses are going wrong with risk communication and how they can improve.

Thomas Fletcher is an experienced leader in supporting the world's largest global organisations successfully deliver complex Business Transformation, Mergers, Acquisitions & Divestments using a blend of Change Management, Project, Programme & Portfolio Management and Business Improvement.

His experience includes: Oil & Gas, Telecommunications, Public Sector and the B2B Services Sector.

Thomas spent a year as the Head of Programme Risk Management for the development stages of the UK's largest infrastructure investment in transportation.

The Chaucer group operates globally across business sectors from Life Sciences and Financial Services, to Technology and Energy and includes the UK Central Government.

Their team are all specialists in their fields and approach every engagement from the client's perspective and as part of the client team. It's a formula that's been working since 1987.

Contents

What Can Go Wrong with Risk Management and Communication?

Sometimes businesses expend a lot of energy on building a strong strategic view, but they don't consider how they are actually going to manage this strategy or engage the supply chain in it.

Almost everyone has a framework for defining and communicating risk – Thomas finds that any bigger or more modern clients will always have something in place.

TF Whether it's 8 by 8 matrices, the standard 3 by 3 'High Medium Low', or systems with operational and business risk compartmentalised, most clients already have lots of different ways of capturing data in relation to risks.

But they tend to lack a ways of actually communicating their findings, so generally any data will just go into a standard report that never really gets changed and may not even be looked at.

You can have the most robust of risk frameworks but still be operating in silos.

A common issue is that many businesses only carry out and communicate risk management processes *after* the fact.

TF When a risk event occurs, because something adverse has happened, I tend to find that many clients end up going back and conducting a review of why it happened, and what they will do differently in the future. But how many of those lessons actually translate into carrying out preventative measures for the future and revised ways of working?

Businesses will sometimes start a project with a risk assessment, but it doesn't necessarily get refreshed and updated during the lifespan of the project. Or they can get the scale wrong at the beginning –

TF for instance they might dive into unnecessary detail when taking a strategic view or go strategic when a more detailed approach would be more appropriate.

It's about getting the right balance of approach, during those initial risk assessments, especially for more complex or longer-term projects.

Infrastructure projects are a classic example. All too often, you're at the beginning of, say, a five or ten year infrastructure programme and an engineering consultancy has already generated 150 risks, however the design maturity is not there, or the project still requires strategic buy in & commitment to inform the decision. The rough idea will be there, but it's often not pertinent to make decisions at that time. You might be able to collect lots of data from a risk assessment – and there can be something quite comforting about collecting volumes of data. But it's the wrong kind of comfort; merely having a good deal of data doesn't mean you know what's truly going on or necessarily give you the insight you need to make the right decision.

Sometimes businesses expend a lot of energy on building a strong strategic view, but they don't consider how they are actually going to manage this strategy or engage the supply chain in it.

So it tends to be that the biggest problem is choosing the right approach for the risk assessments and pitching them at the right level for the point that the project or programme is at in the business life cycle.

So What's Most Important in Risk Communication?

Many businesses feel that they have to 'do' risk, including collecting data, but it's motivated by a sense of obligation, and therefore rarely impacts business and project performance and outcomes.

At its heart, risk communication should look at both sides of the risk and ask: What is it you're trying to prevent? What are you trying to achieve?

TF Too many approach it from a 'bad things are going to happen' perspective.

In any project, things can, and will, go wrong and cause an adverse risk event to occur. Knowing this creates a danger of focusing on what you will do if that happens, rather than on the activities that need to be completed and timely decision-making to ensure the best possible outcome of the event you are managing.

The influence of risk management on delivering successful project outcomes hasn't changed as the well publicised project success rate hasn't changed in years. With the industry debating among itself what we have to do to move forward. Risk functions haven't had great success with clients in gaining senior-level commitment to actually take action off the back of what they are presenting from a risk perspective.

Everyone knows they've got to have, as part of good governance, a risk and audit committee, risk data collection, and group-level and divisional risk registers.

But why, if it is not changing the decisions that are made?

It's all very well having lots of valuable risk data, but the value is lost if you're not actually using it to manage and inform your project and business decisions.

TF Many businesses feel that they have to 'do' risk, including collecting data, but it's motivated by a sense of obligation, and therefore rarely impacts business and project performance and outcomes.

So you've got 100 items on your risk register – so what? The important thing is to understand what you are actually aiming for. What's the event you're trying to deliver successfully or prevent from going badly?

If you can articulate that, suddenly risk becomes real. People will understand it as part of their day-to-day job. And it is. Project and programme management is risk management. The two are separated in terms of capabilities and professions, but they're actually aiming to deliver the same outcomes and benefits.

TF **Once you strip away this idea that project management and risk management are two separate things, it becomes far easier for those outside the risk "sphere" to recognise it and incorporate it into their worldview.**

Again, this can come down to taking a step back and revising the way you look at risk. Taking the view of "what is it we're trying to do, and how do we successfully achieve it, maximise the opportunities to deliver the project outcomes and benefits". It also starts to prevent, or minimise, the things that could go wrong and allows risk to become part and parcel of the way everyone works.

Mental Barriers and Opportunities
The Role of Empowerment

As soon as an activity crosses a boundary – whether it's from one person to another, one division to another, or one business to another – opportunities for misunderstanding based on miscommunication arise.

Thomas finds that people tend to communicate and manage risk better when they have a reasonable degree of control over it themselves, and the ability to fix it if something goes wrong.

TF People tend to deal with risk well when they have the authority and knowledge – and almost comfort – to feel assured that, if something does happen, they can deal with it and don't have to look elsewhere for help.

It's when risks span the organisation or an individual's sphere of control that problems usually arise. The person who identifies a risk or issue may not want to share the burden or lose autonomy, or, worse, they may be unaware that something they've recognised within their function or area is having a downstream or upstream impact. And when they do realise, they don't know how to communicate that effectively.

TF They may assume that the effects elsewhere are someone else's problem and they shouldn't interfere, or perhaps they attempt to communicate the issue but don't share the right information. The person with whom they are communicating will brush the issue off as unimportant because they don't really understand it. And when you don't understand something you can't articulate its impact or the boundaries around it in order to say, "this is what will happen" or "this could be the consequences if this risk in your area is realised". Without the ability to conduct these constructive, fact-based conversations, it becomes impossible to agree how you will communicate with each other and monitor the risk as it progresses.

As soon as something crosses a boundary – whether it's from one person to another, one division to another, or one business to another – opportunities for misunderstanding based on miscommunication arise. Even if it's just two people involved, you're effectively doubling the opportunities for a message to be confused. And when you've got multiple people involved, from different departments and working cultures, the problem is compounded.

If one side thinks everything is perfectly clear but the other does not, you've got a problem.

Mental Barriers and Opportunities
The Power of Fear

Removing some of the inherent bias in risk reporting and moving towards a more objective approach should be an occupational goal for everyone.

Another issue that impacts effective risk management and communication is human fear. If you monitor risk and communicate it well, you can avoid critical incidents and prepare for risk events, hugely increasing the likelihood of success – so fear over its communication seems counter-intuitive.

However, many people feel under pressure to play it down.

TF There can be a mentality of "Oh no, we can't give this a risk score of 20 – that requires escalation. Can we make it 18 so the level stays on 'Amber', and we don't have to escalate?" This is often driven by the rigid structure and scoring employed by many organisations, which dictates that anything over a certain risk exposure score must be reported. These reports often go 'all the way up' as a rule, heightening the pressure to ensure these risks are 'really' urgent or under evaluated.

Things get worse when project and programme risks aren't looked at in the right context.

TF A risk can have a high score in the context of a project but may not really be relevant to a wider programme. It's a good example of why it's important to get the balance right when communicating risk. In this case escalating the risk would be pointless; those working above the project level will not be interested in project risks and will expect you to just deal with it.

If you don't need somebody to do anything about it why are you communicating it? You should be

TF informing people of the potential requirement to act in the future, so there are no surprises. However, you also need to give them confidence that you are managing everything and understand the necessary triggers for them to take a more active role in managing the risk.

These sort of issues can contribute to the culture of fear around risk reporting. You get burnt because you report something but nothing happens or your report creates unnecessary fuss or irritation. But this can lead to reluctance to flag or escalate issues that really do need further attention.

Personal bias is another unfortunate but natural reality. Risk reporting that is very much driven by personal bias – removing some of that bias and moving towards a more objective approach should be an occupational goal for everyone. But it can be difficult, because you're always looking from your personal perspective. When it comes to risk communication, that tends to mean that everyone's behaviour is always at least a bit coloured by thoughts such as, "if this gets communicated how does that make me look?" or, perhaps the belief that you can manage certain risks alone, so you allocate quite low scores, when really you should be evaluating at a higher level.

Scoring is really there as a guide and to flag things up, but, in practice, it can actually make things more difficult. Really the focus should be on the decisions that you make after scoring and the actions you take as a result.

Enterprise Attitudes Towards Risk Communication

Prioritisation

Sometimes you'll see risk communication given reasonable priority, but the tools to get the most out of the opportunity are missing and the employee can't properly articulate their update.

Some businesses – or departments or even individuals within a business – don't afford enough focus on the communication of risk. In other cases, risk communication is prioritised appropriately but the message still doesn't get through.

TF Often I see issues, not with the level of priority clients put on the communication but with the way that they are choosing to communicate. Sometimes you'll see it given the appropriate priority, at least in theory, such as ensuring that the employees dealing with risk give a monthly update, but the tools to get the most out of the opportunity are missing and the employee can't properly articulate their update. Issues can arise from the context of the messaging and the story that it's trying to tell, or from failing to understand and address the impacts on all the environments the business is operating in.

Often, the intentions are right, but, if the method of communication is wrong, people switch off and the message is missed. Risk communication can just becomes a tick in the box, and even the most well-planned processes add no value to the business.

Enterprise Attitudes Towards Risk Communication
The View from the Top

In reality, everyone is actually managing risk – those at the upper levels of business more than most – they just don't understand it as such.

Because it's not always relevant to them, ensuring that top management see the value and purpose of communicating risk management, rather than just 'getting on with it', is always a key challenge.

TF Unless they've got a natural interest, it tends to be something that people just ignore, but, in reality, everyone is actually managing risk – those at the upper levels of business more than most – they just don't understand it as such.

Risk management actually happens every day, quite naturally. It can be something as simple as deciding whether to take the stairs or the lift when carrying a heavy load. Everyone in an organisation is likely to be carrying out some

TF degree of risk management and communication but many will be working without the frame of reference to understand how their own work pertains to Enterprise Risk Management (ERM).

Most people will have a very personal view of risk and so manage it in a very personal way – based on their own career aspirations and personal drivers as opposed to organisational drivers, the two might be aligned but often aren't.

But if you can you can make your organisational risk communication relevant to your audience, including the upper echelons of the business, they will see the value in it and be able to understand it.

Conclusion

You don't actually have to have been trained or qualified in risk, as long you've got then right approach and understand how to manage it.

For risk communication to succeed it needs to be understood as a different angle of project and programme management.

Thomas has found that, in practice, you don't necessarily have to have been trained or qualified in risk; you just need the right approach and understanding of how to manage it. How you access the data and present that back is key.

When risk is communicated well, that's usually because it is articulated in business terms, rather than risk terms. Even with the best data and expertise, if you present your findings poorly the audience will find it dry and boring, or even fail to understand, and the reaction will be "done, move on".

If you can create a culture in which risk and project management are understood as two sides of the same coin and present your risk communication in a clear and engaging manner, then the battle is halfway won.

Risk Communication in Action
A Case Study

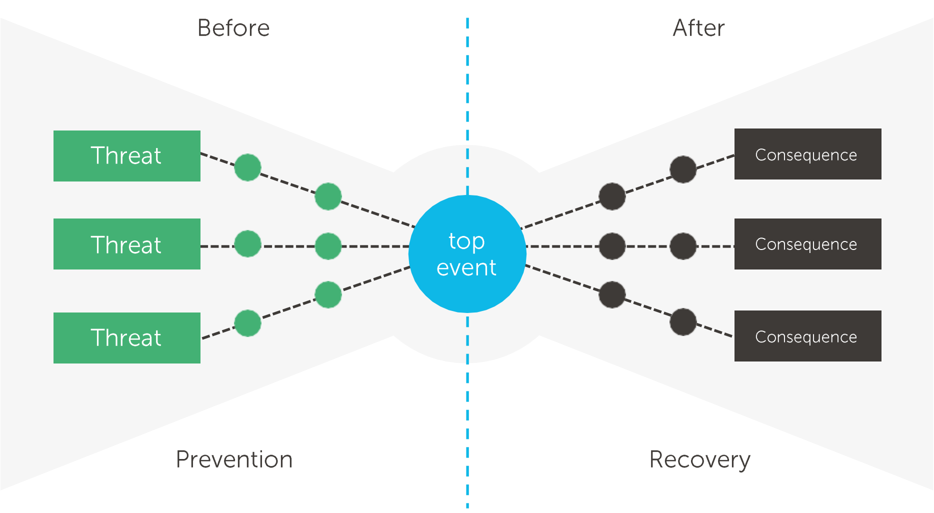
One of Thomas's clients were running a large-scale SAP deployment programme across an entire organisation – an upstream business in oil and gas. Their operations function, one of the biggest user communities for the solution, were well versed in using the risk bowtie approach for operations and process safety, and it was hailed as a significant contributor in the improvement in safety performance across the business.

TF We thought we'd utilise the bowtie framework, because such a large proportion of the Operations community were involved in the SAP deployment programme. But when it came to beginning to implement the bow tie approach, it emerged that people were struggling to apply the model in the business environment, due to the complexity of the relationships between threats, controls, mitigations and consequences.

TF It's a good example of risk management and communication executed poorly – the client had a great methodology for managing risk but just didn't actually apply it or understand how to put it into the right context.

But once we'd done that, suddenly, not only did the senior leadership take notice, but everyone who was involved. In the programme we had participants from four major functions – procurement, ops, finance, IT – to put software live, or make a business go live on that software, we had to get at least twelve groups working together to manage the risks of doing so. We found that once we tied risk management and communication back to the business's ability to get oil out of the ground, they started to become engaged.

The Bowtie Model



TF Once the understanding of what the risk was really about and how the 'bowtie' works was instilled, the project became simple. We only ever managed two risk events – we didn't worry about communicating traditional programme risks and risk registers, because ultimately what would cause success or failure of the programme was managing these two events on an ongoing basis. The first was bringing a whole new business unit live onto the solution; the second was upgrading – every time the solution was upgraded, you posed a risk to everyone already using the system and of creating an impact on the business's ability to operate safely and effectively.

As long as those two events were managed, with nothing adverse happening, the programme was viewed as a success and you started to realise benefits a lot faster because of the adoption of this way of working. With that client: once we'd got it hooked into the mainstream of the business and articulated the programme risks in a way that not just the programme team understood and had a vested interest in avoiding, but also the people on the other side, the recipients of this way of working, also had a vested interest in making it work.

As soon as you get that, it becomes less about risk management than about everybody working together to deliver the right outcome. But it was all based on that risk model and driving that change in attitudes – once it got traction it became the standard way of working.

No matter how good your risk communication processes, the intended audience may not always understand.

– Thomas Fletcher, Chaucer Group

Juggling complicated spreadsheets, disseminating data, and creating presentations that incorporate every bit of relevant information can be a killer for an engagement.

To ensure risks are understood and addressed appropriately, risk managers need to communicate complex issues across all levels of the business in such a way that grabs – and keeps – attention and interest. Sharing comprehensive information in a clear and simple way makes the message far more likely to hit home.

SharpCloud allows you to turn your risk data into interactive, non-linear content, with all the detail you require, helping you to clearly identify and communicate risks to an engaged audience.

Learn More