Why Manage Risk?……

……. Fire-fighting's Fun!

Introduction

The problem we shall be examining in this paper can be illustrated by an experience we had at the end of an in-house seminar, when a senior manager described the seminar as "a total waste of time". When asked why? The reply was that "the business promoted managers on the basis of their demonstrable ability to fight fires, so what was the value of reducing the opportunities of having fires to fight?" That such a statement could be made, even if in half-jest, should be a deep concern to any business as it represents a behaviour where, in promoting their individual interests and satisfactions, senior staff may act in direct conflict with the business's need to achieve successful project delivery.

To learn from this experience, we as risk management professionals must ask why we have so often failed to effectively combat wider management's reluctance to buy into this valuable concept of risk management. Wider management comprises of individuals, and for each individual this reluctance to buy can be attributed to one or more foci of resistance:

…… "I do not need it"

…… "I cannot afford it"

…… "I do not want it"

These three foci provide a valuable range of investigatory pathways as to why risk management is not more effectively absorbed by managers into their regularly applied repertoire of tools. This paper addresses the three points and provides some responses based on the experiences of TM-Consult staff working as risk managers in the Rail and Defence industries. It also introduces some relevant psychological theory to explain possible causes of the behaviour experienced.

"I do not need it" – but you do!

Strong and dynamic management was in the past expected to cope with the problems that projects threw up on a day to day basis. It is recognisable today that many managers still do not link together their past actions with their current problems and dramas. Even where imminent disaster is clearly visible these managers often try to progress immediate work, and so it was into this environment that traditional project risk management was introduced. The concept of:

'there is a risk that ……' 'caused by ……' 'resulting in the effect ……'

can be preached, and mitigation of cause can be encouraged, but freedom from future effect is not always an adequate reward to encourage effective risk management.

Meanwhile, skilled and forward thinking project leaders were trying to solve issues – facts that created uncertainty and ambiguity such as an unclear specification – and introduce monitor and control systems such as 'critical path analysis'.

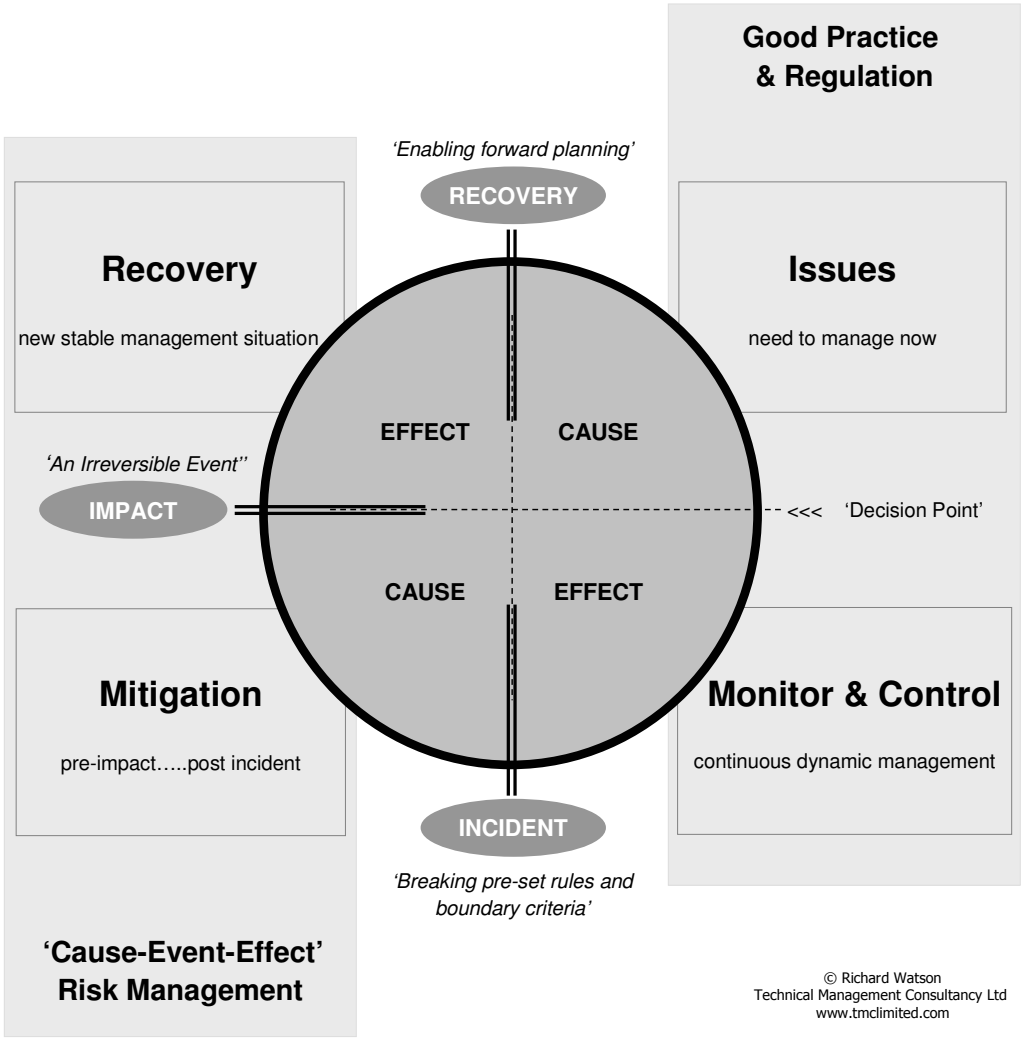

fig. 1 **The Circle of Risk**

TM-Consult staff have further developed and applied this thinking, by using the concept of the 'Circle of Risk' (fig.1) to demonstrate 'issue management' and 'monitor and control' as preventative actions to the occurrence of risk impacts (Watson R. & Ramsay C.). Within the 'Circle', the right-hand side may be considered as 'Good Practice and Regulation', while the left-hand side represents the 'Cause-Event-Effect' focused risk management, such as is traditionally applied to projects and programmes.

Recent experience in the rail industry has clearly demonstrated the advantages of taking the approach of inputting as much pre-emptive action against uncertainty and disruption as possible (i.e. action on the right-hand side of the 'Circle'). The advantages that have been observed to accrue from this commitment have included:

- Fewer risks (by an order or more of magnitude) that creates the visibility to see the 'wider picture', and improves management attention to the real programme problems;
- More time and effort spent up front to assess the requirements, and the implementation processes to be applied to fulfil them;

- The integration of risk management and continuous process improvement, enhancing action ownership by the individual to the on going advantage of the business;
- The ability to be a learning organisation that can harness and build on the experience of the group, and can disseminate gained knowledge through the business;
- The ability and time to incorporate other techniques into the work – such as scenario development for major activities, which aids the identification of problems in the execution of those activities and provides carefully pre-designed responses to those problems if they occur.

These experiences in applying the 'Circle of Risk' clearly identify the existence of a real need for pre-emptive action against risk, and not just at the traditional level of risk mitigation. The additional value in raising the action to a higher managerial plane, so as to incorporate 'Good Practice' on the right-hand side of the 'Circle', has paid handsome managerial dividends. This focus on the right-hand side of the 'Circle' evokes the beneficial development of a Tacit Knowledge-Explicit Knowledge Cycle (Pitkänen P.), which uses the project and programme experience of the individual to enhance the overall management of risk.

"I cannot afford it" – but you cannot afford to be without it!

From time immemorial it has been realised that pre-emptive spending saves future expense, as witnessed by the ancient proverb "A stitch in time saves nine". Modern risk management techniques assist in the evaluation of appropriate levels and forms of pre-emptive action, and in providing commercial justification for the levels of effort and expenditure applied. This justification incorporates the consideration of the impact value, its manageability, and the criticality of the project delivery aspect effected. This value modelling does not however, change the time-honoured rationale that in most instances it is difficult to justify not committing to pre-emptive expenditure. Unfortunately, under the intense pressures of the project environment it does not always appear rational to expend budget, resource, and management time on pre-empting tomorrow's possibilities rather than giving total commitment to today's progress delivery.

There can, of course, be situations where the prize is so highly valued that the potential threats and associated personal losses of the risks identified are accepted – for example in 'Round the World' yacht racing. Similarly, in say research, risk-taking may be seen as the 'tool' that is used at the edge of knowledge to access the opportunity of new products (Watson R. & Ramsay C.). If this risk-taking is committed to in a measured and thought through process, then this is a justifiable exposure to the need to 'fire-fight'. Within the average commercial environment however, the philosophy of "betting the business" represents a rare and extreme management approach, although it may be justifiable on a smaller scale where the potential impacts can be easily absorbed by the business.

In considering the cost justification of risk counter action, a numeric analysis can usually clearly identify the returns, or lack of them, in the proposed actions and their associated reduction in the risk. The danger lies in the definition of the variables and the taken assumptions that are necessary to enable the analysis to be achieved. This is substantially a mathematical assessment, but it does relate to the care, thoroughness, and perspective that the individual applies to defining and assessing the situation, which aspects may arguably be dependant upon the involved individuals' want to achieve a real understanding of their risk management need.

"I do not want it" – even if I give it lip service!

It is here that project professionals have been observed demonstrating a real dichotomy:

- If the results of risk workshops are carefully analysed then the output can be observed to consist substantially of risk causes, illustrating that the causes are in the forefront of people's minds. Indeed, if the participants are asked which items they wish to further develop they invariably select and want to pursue these risk causes – showing a strong desire to operate in the top, right quadrant of the 'Circle of Risk'
- If you observe the same individuals operating within a project environment they invariably appear to be focussing in a reactive manner to the potential, and sometimes imminent effects of impacts – illustrating a strong desire to apply an overwhelming majority of their risk containment effort close to the left-hand horizontal of the 'Circle of Risk'

While there is obvious pressure to manage down impacts that appear imminent, there is frequently no obvious reason why those risks should have been allowed to develop to such a critical state, where often the effects of the counter actions are only a little less disruptive than the actual occurrence of the risks. The fundamental question that must be asked is why people operate so differently between the workshop and live-project environments?

In a well-run workshop the focus is on asking the individual what are that individual's worries and concerns are about the delivery of the project. While the group environment provides stimuli to the thought processes of the individual, it is still the responses of the individual that is being sought. This individual focus is not just true of risk management workshops, but also of those employed by 'value engineering' and 'continuous business improvement' for example. But perhaps it is the surreal atmosphere of the workshop that is the real source of this cause-focused behaviour. Within the workshop, the individual can reach across directorate boundaries to the cause of their problems in a way that is maybe not possible in the real world, where the cause creator is protected by the organisational barriers that exist. The techniques developed and used by the TM-Consult teams to identify causes, and to focus on the early resolution of the issues they raise (Moore A), have proven the advantages of being able to reach across these protective organisational boundaries.

In the workplace individual behaviour is related to the needs of the team and the organisation, but this however relies on the contribution of the individual. This contribution needs the individual to be informed as to the needs of the business in terms of conscious goals and intentions to be achieved (Locke E.A. & Latham G.P.). Even then, there usually does not exist a common desire within the project organisation, so the business raises links to align the individual with the needs of the business's projects. This motivation may be in the form of threat, reward or a combination of the two, in the anticipation that in consciously and rationally balancing rewards and costs the individual will respond in the way desired by the business. (Vroom; and also Walster, Bercheid & Walster) It must be realised that no specific inducement or threat will have a specific effect with all individuals, as explained by the concept of valence in Vroom's Expectancy Theory (Vroom) which describes valence as "the extent to which the anticipated outcomes appear attractive or unattractive to the individual".

In the meantime, from our observations within projects from a variety of industries, the business loads the individual with additional influences that may include:

- Externally defined process – not developed and owned by the individual;

- Task defined work – not objective defined within a decision-taking environment;
- Failure to give recognition to success - e.g. person to person congratulation;
- Blame culture – where blame avoidance outweighs successful delivery;
- Short term time pressures – where the urgent outweighs the important;
- Report delivery emphasis – tending to lead to an increased focus on effects;
- Departmental protection – denying access to the causal areas of the business.

The effect of these influences, often activated by default, is to create a regime where the individual is pressured to follow laid down procedures and to accept organisationally defined constraints. This in itself denies the individual any participation in the ownership of the said laid down procedure, and also denies the individual the opportunity to input factors or approaches that could benefit the business. It is a failure of management to not respect the individual project team member as a central, special case stakeholder in the project. (Ramsay C & Watson R) Stakeholders are of paramount importance to a project. Failure to acknowledge their attitudes, desires and spheres of influence is a frequent cause of serious losses on both minor and high-profile problems on major projects. (D'Herbemont O. & César B.)

The counteraction to the above is creating participation in and ownership of the processes, as described in Bass's Transformational Leadership (Mowday R T). Transformational Leadership aims to create the intellectual stimulation that will induce behaviours which encourage followers to be creative problem solvers. According to this theory the behavioural components of leadership interact to affect changes in followers' levels of awareness and in their motive patterns, recognising the importance of work objectives and task outcomes. By exhibiting various combinations of these behaviours, leaders elevate followers to their better selves; consequently the followers of Transformational Leaders tend to be motivated by such high order needs as achievement and self actualization rather than by baser needs. (e.g. self promotion by continuous 'fire-fighting). Additionally, the theory would predict that these followers [of Transformational Leaders] are more likely to transcend their own short term self interests for the sake of their work group or organisation (Mowday R T).

Conclusions

It would appear that to move individuals involved with projects and programmes to a more delivery-focused attitude, businesses must change the organisational pressures on the individual. If the individual is rewarded for the 'today only' process input (such as seen in fire-fighting) it may create both directly, and by observation, a commercially unacceptable learned behaviour (Thorndike E L; and also Skinner B F).

This representation of human social interaction focuses on the behaviour pattern that people develop in response to environmental contingencies. Certain social behaviour may be rewarded while others may produce unfavourable results, and through the process of differential reinforcement, people eventually select the more successful behaviour patterns. Social Learning Theory (Bandura A [ref 7]) differs from strict behaviourism, in that it stresses the importance of cognitive processes. Because people can represent situations symbolically, they are able to foresee the probable consequences of their actions and to alter their behaviour accordingly.

Was our original observer, from his organisational position, right when he saw 'fires' as the reward-generating opportunity? As already noted, it has been observed that this learned 'fire focused' behaviour is actually in contravention to the individual focus on the sources of risk that appears to be exhibited in workshops, and is a behaviour, which once embedded, usually proves difficult to eradicate The actual explanation of

this learned behaviour [called the reinforcement effect] is that every consequent that has a subsequent effect becomes an antecedent in that it generates expectations about the future which in turn regulate action (Bandura [ref. 7 and ref. 8]).

The other factor about the workshop environment which may be significant is the freedom the individual has to define and demonstrate the focus of their interest. This freedom for decision authority (Stansfield S.A. et al), can in itself be a major source of well being. Conversely the lack of freedom for decision authority, as often occurring in the workplace, has been shown to impact on mental health (Stansfield S.A. et al).

Equally, the project management industry generally, and the risk management experts in particular must also open themselves to self-criticism. In our enthusiasm for the benefits of good risk management practice within projects and programmes, we have often been prescriptive in our approaches, selling the features to the individual, on behalf of the business, that that we have defined as being beneficial. We must learn to be more responsive to the individual and let them take on the ideas and methods and develop them into their businesses, supported as appropriate by our wide knowledge of appropriate tools and experience in their application. The results may not be as spectacular in the short term, but any risk management change achieved will be truly embedded into the way the business delivers its project deliverables.

It may indeed be beneficial for risk experts to take the pre-emptive management process a stage further, to the advantage of those managers who already try to provide sound risk management within their projects and programmes. To reward their diligence in defining and executing sound risk mitigation (i.e. actions in the bottom left quadrant of the 'Circle') we should be prepared to provide knowledge, competencies and supporting tools which can provide stronger risk counteraction within project delivery. These supporting tools, such as Collaboration Portals, Requirements Management, Systems Engineering, Continuous Business Improvement, and Goal-Focused Planning would enable the proactive project manager to move a substantial element of their team's efforts to the stronger right-hand side of the 'Circle of Risk'. The use of these tools, and the freedom to operate them properly, and at their discretion, in a decision based (not task based) environment, can give a manager an increased probability of success. And maybe, this enhanced prospect of success and the self-ownership of that success is the key motivational reward we should be helping the proactive manager to achieve.

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