Save the dates!

10 May – Next lunchtime seminar

8 June – RiskNZ AGM

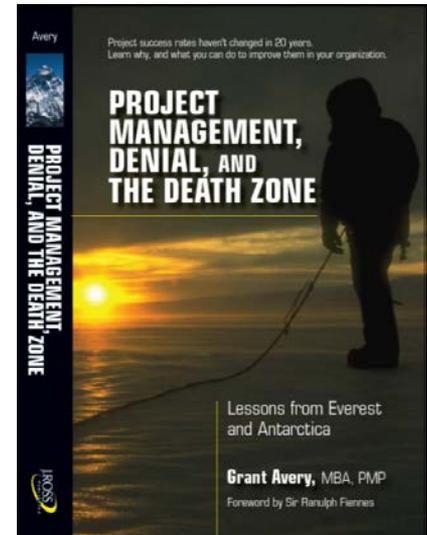**15 September** – RiskNZ Development Day in Wellington

RiskNZ gratefully acknowledges the support of our
sponsors

We also thank our hosts for this event:
Beca, Navigatus Consulting, Unison, Wel Networks,
Christchurch City Council, KPMG and Powerco

Managing Risk Appetite in Projects
The key to a step change in risk management culture

Grant Avery, MBA (Distinction), PMP

RiskNZ, 12 April 2016
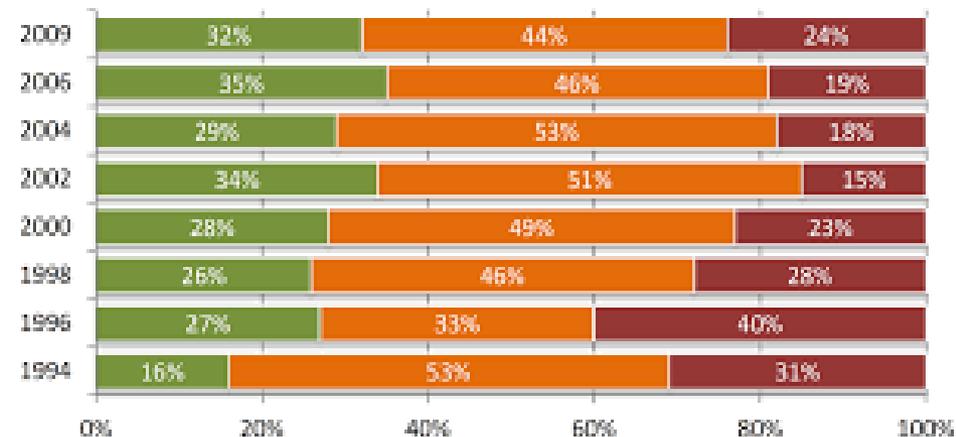
MODERN RESOLUTION FOR ALL PROJECTS

	2011	2012	2013	2014	2015
SUCCESSFUL	29%	27%	31%	28%	29%
CHALLENGED	49%	56%	50%	55%	52%
FAILED	22%	17%	19%	17%	19%

The Modern Resolution (OnTime, OnBudget, with a satisfactory result) of all software projects from FY2011–2015 within the new CHAOS database. Please note that for the rest of this report CHAOS Resolution will refer to the Modern Resolution definition not the Traditional Resolution definition.
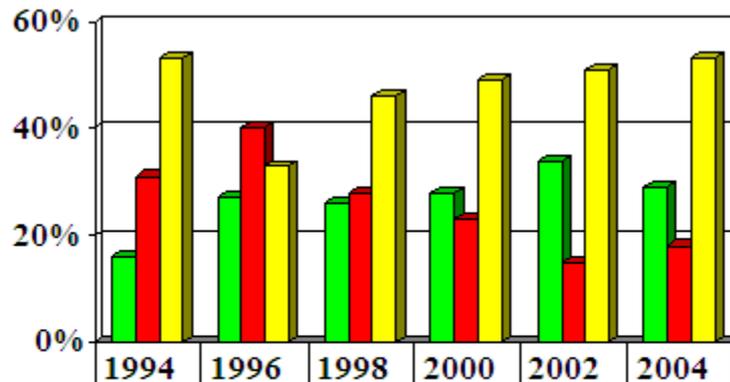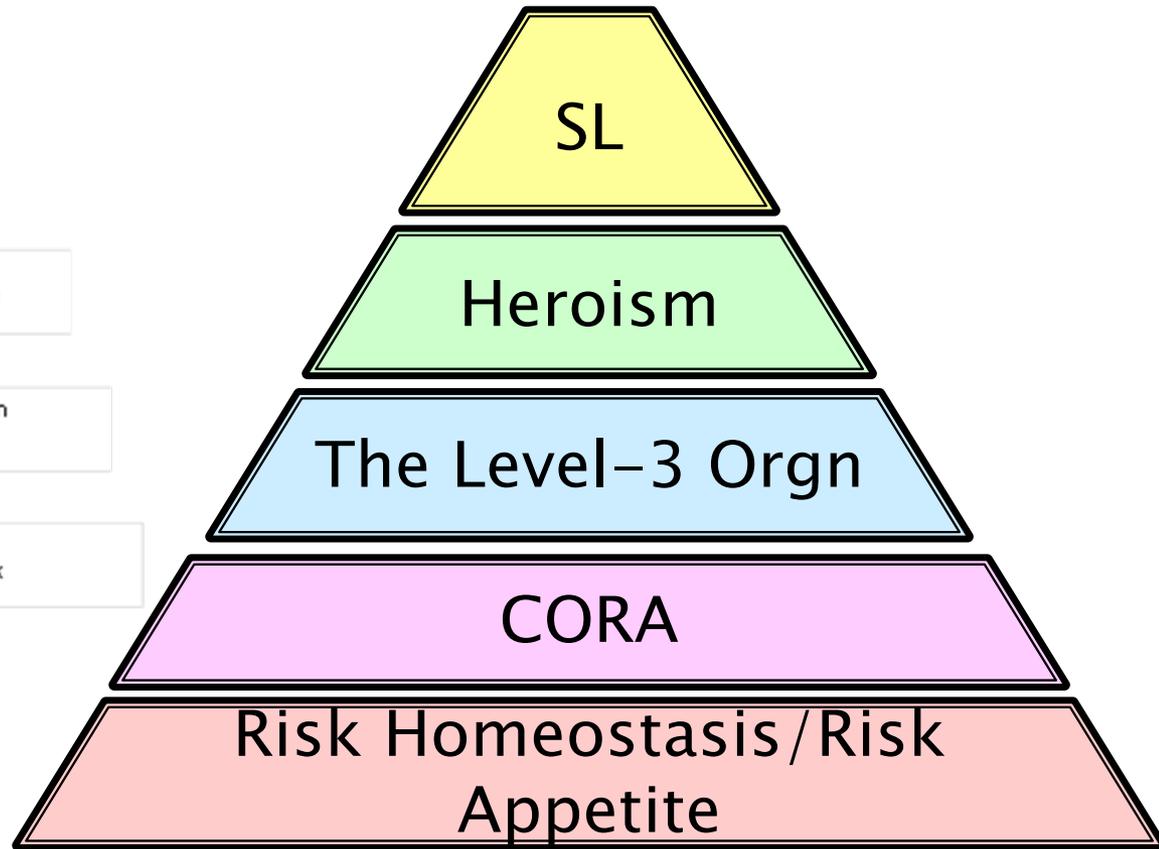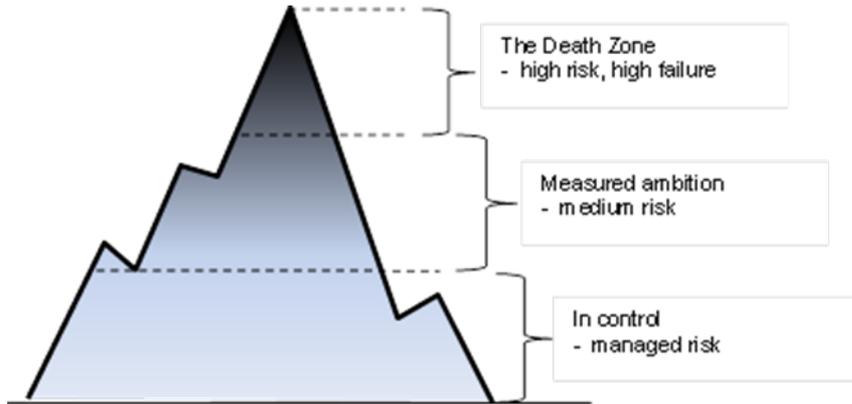
	1994	1996	1998	2000	2002	2004
Succeeded	16%	27%	26%	28%	34%	29%
Failed	31%	40%	28%	23%	15%	18%
Challenged	53%	33%	46%	49%	51%	53%

	Successful	Challenged	Failed
2009	32%	44%	24%
2006	35%	46%	19%
2004	29%	53%	18%
2002	34%	51%	15%
2000	28%	49%	23%
1998	26%	46%	28%
1996	27%	33%	40%
1994	16%	53%	31%

CHAOS 2015
(http://www.infoq.com/articles/standish-chaos-2015)

Core themes

The Death Zone
- high risk, high failure

Measured ambition
- medium risk

In control
- managed risk

SL

Heroism

The Level-3 Orgn

CORA

Risk Homeostasis/Risk Appetite

– Denial
– Advanced basics
– Project management ethos

The constancy of failure

Ken's Assurance Reviews – Ratings Summary Year-1 and Year-7		
Project overall rating (Red, Amber, or Green)	2007	2013
Percentage of 'Reds' (serious risks or issues are present)	24%	26%
Percentage of 'Ambers' (moderate risks or issues present)	44%	53%
Percentage of 'Greens' (the project is on track)	32%	21%
Number of projects with WOLC costs larger than $10m	23	71
Percentage of annual project spend involving more than one business division or group	24%	62%

Is a recurring theme

Average Project Failure Rates (multiple studies)

Size, complexity, and value of outcomes increase exponentially

Project Failure Rates

100%

No sustained performance improvement in 15 years

50%

30%

1995   2000   2005   2010   2015

The Risk Appetite Gap ≈ 30% - average losses of 30%

Year

O-I ©2016
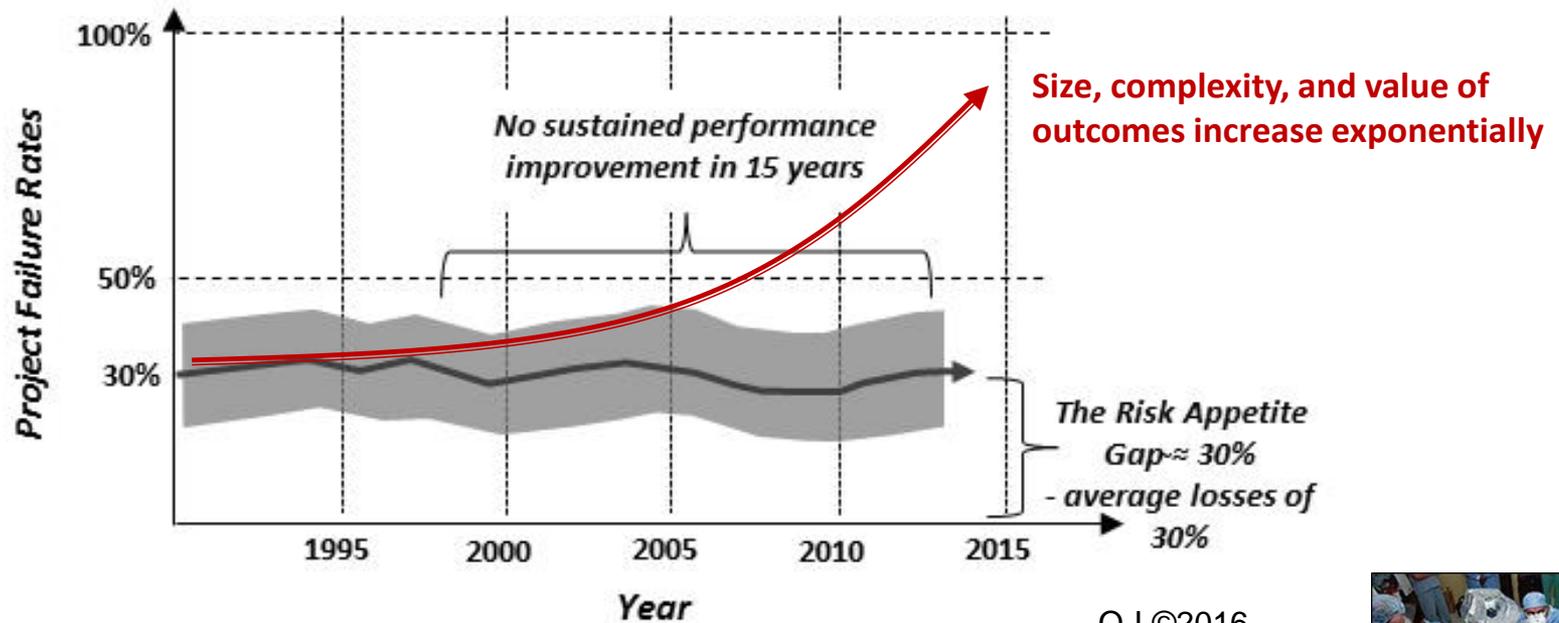
(PMI, Standish Group, KPMG, PWC, Gartner)

Risk homeostasis affects all areas of our lives

- If something makes us feel safer, we take on more risk in compensation
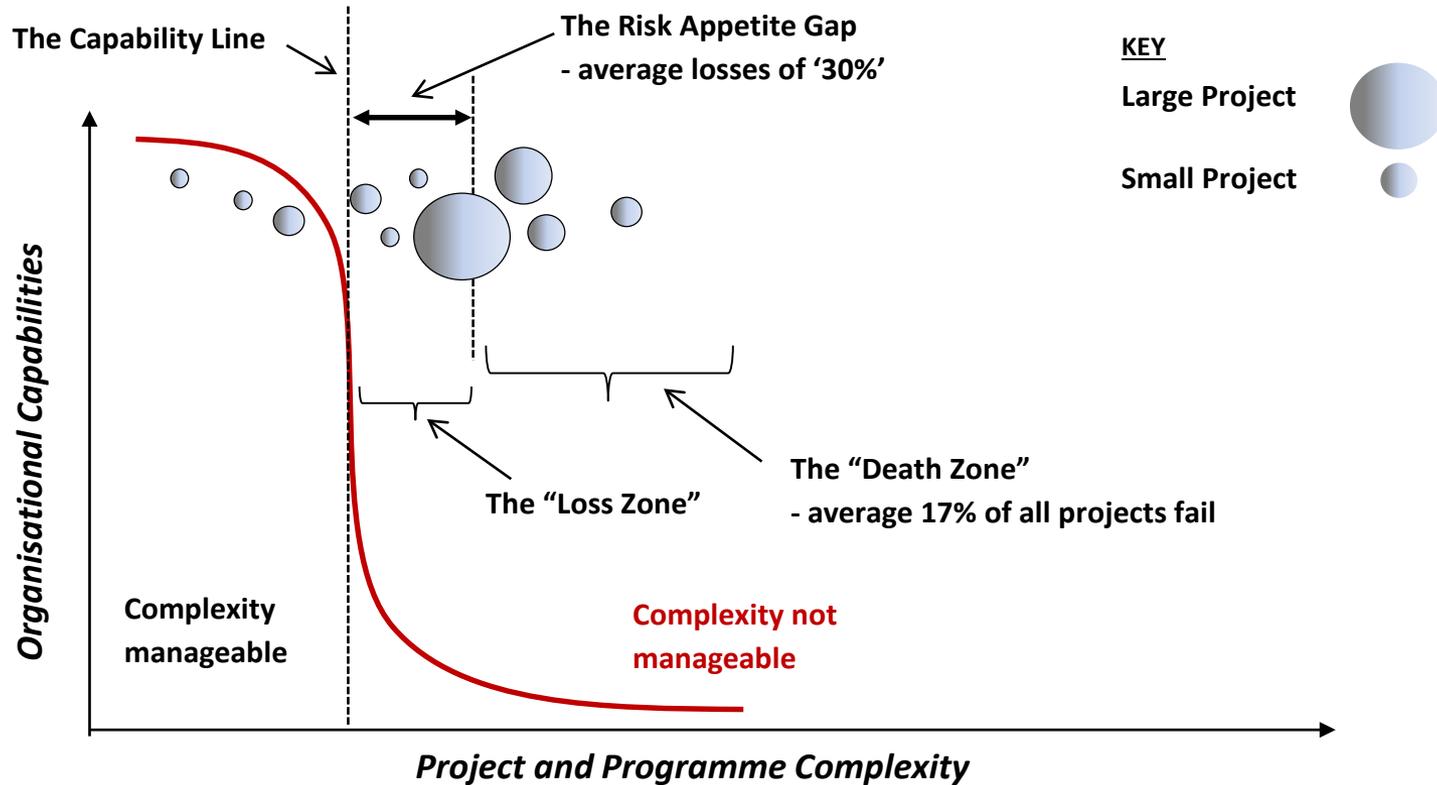- "*Target Risk 3: Risk Homeostasis in Everyday Life*" Wilde, Gerald J.S, (2014). www.riskhomeostasis.org)

- And of course our projects
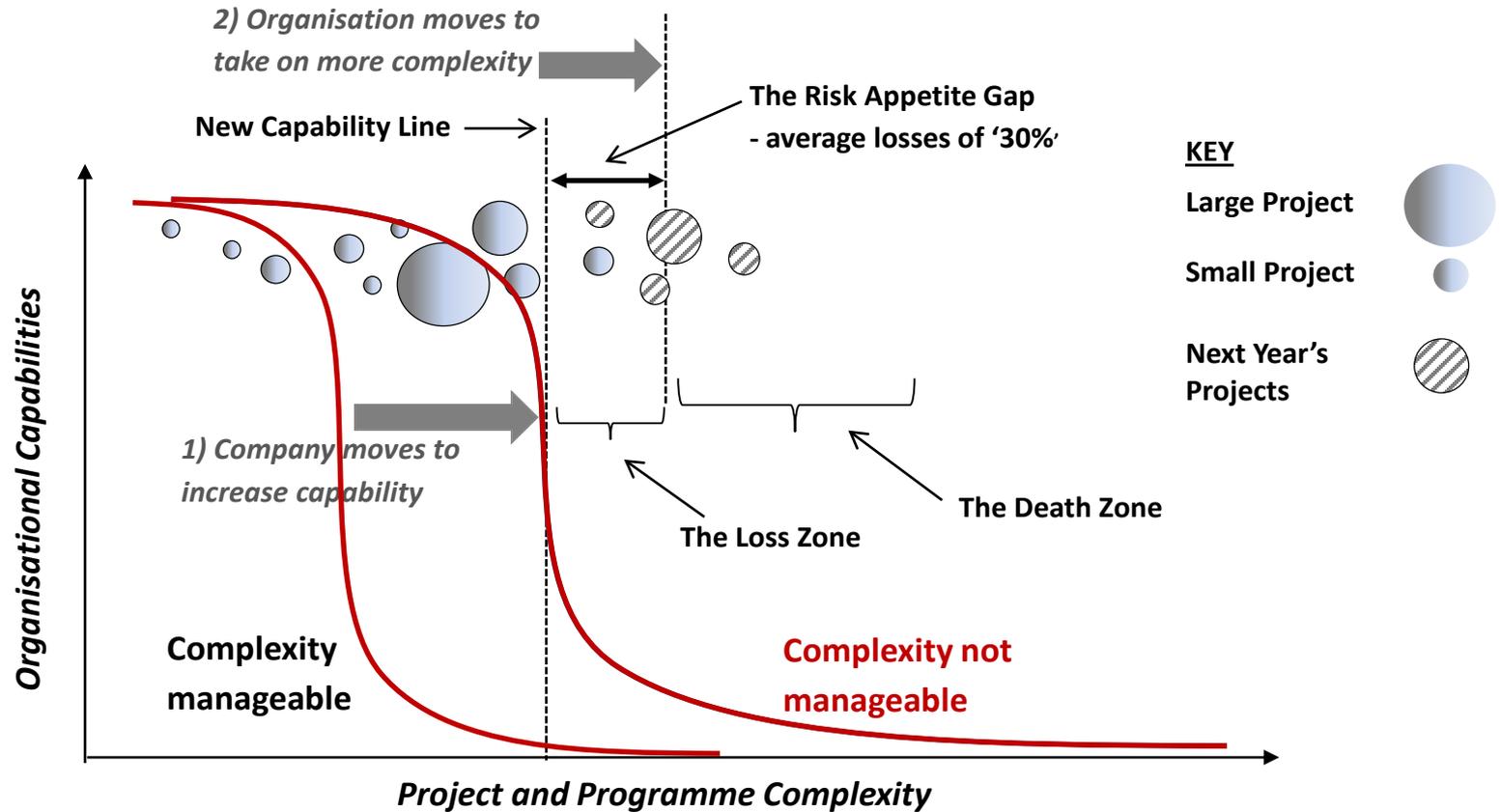- Rather than be safer, we seek to maximise our outcomes

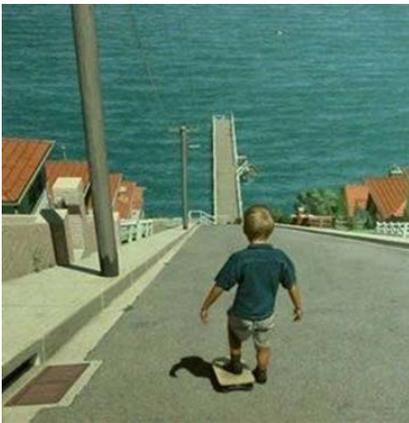# In our organisations

Before lifting Capability…

In our organisations

After lifting Capability. Little change in net failure rates…

2) Organisation moves to take on more complexity

The Risk Appetite Gap - average losses of '30%'

New Capability Line

Organisational Capabilities

1) Company moves to increase capability

The Death Zone

The Loss Zone

Complexity manageable

Complexity not manageable

Project and Programme Complexity

KEY
Large Project
Small Project
Next Year's Projects

Risk appetite

- "*The amount and type of risk that an organization is willing to pursue or retain*" (ISO Guide 73)
- Sets the level of your organisation's risk homeostasis
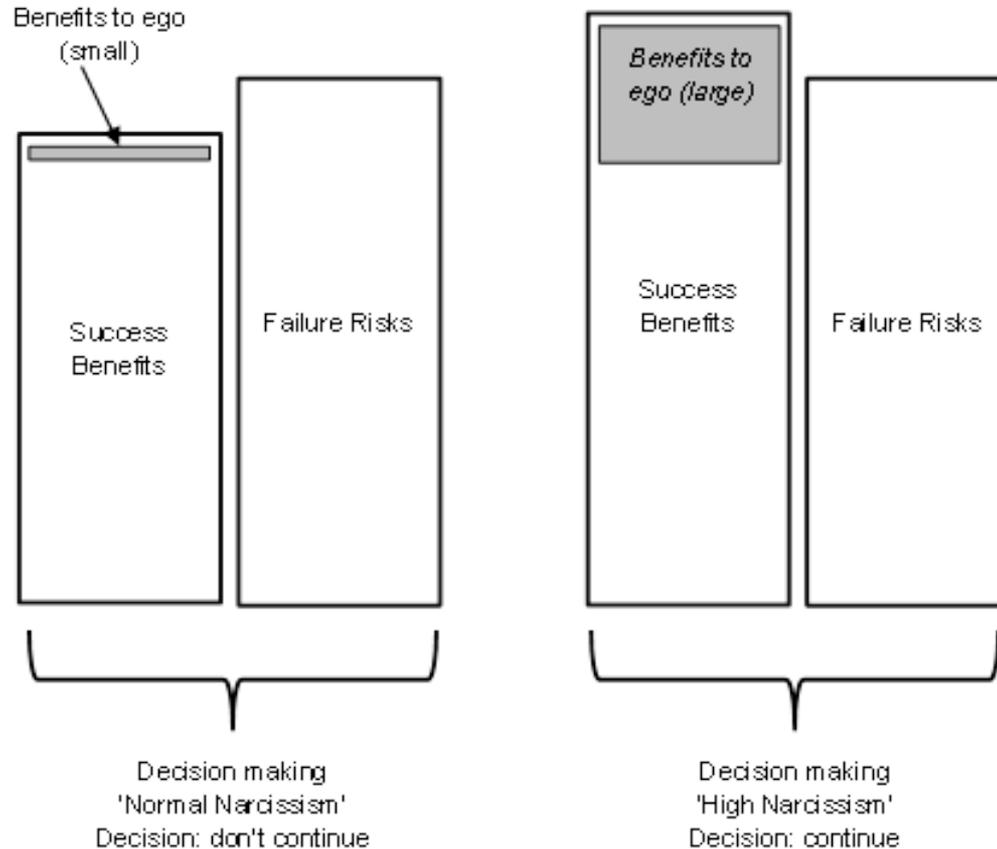- Risk hungry or risk averse?

Risk Personality
(of the individual, or the organisation)

- past experiences
- cognitive biases
- emotions
- normal narcissism
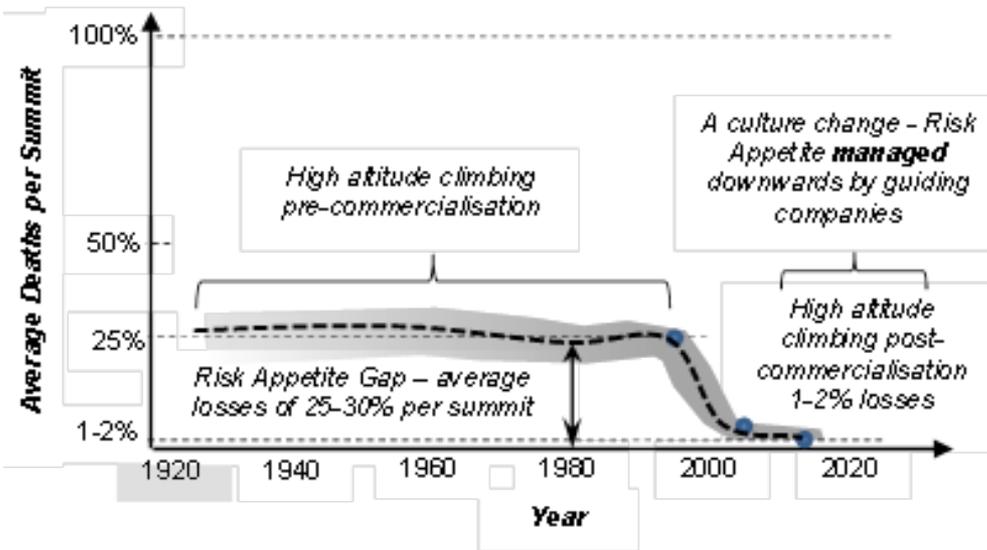- pressures we are under
- the value of the goal
- our genetic makeup

Don't under estimate the role of the ego in unconscious setting of risk appetite (spectrum: normal narcissism → denial)
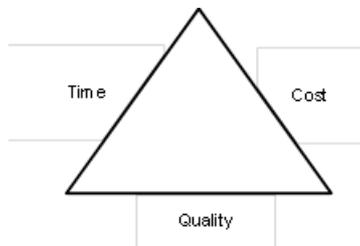
How do we break the cycle?

– a step change in risk management culture

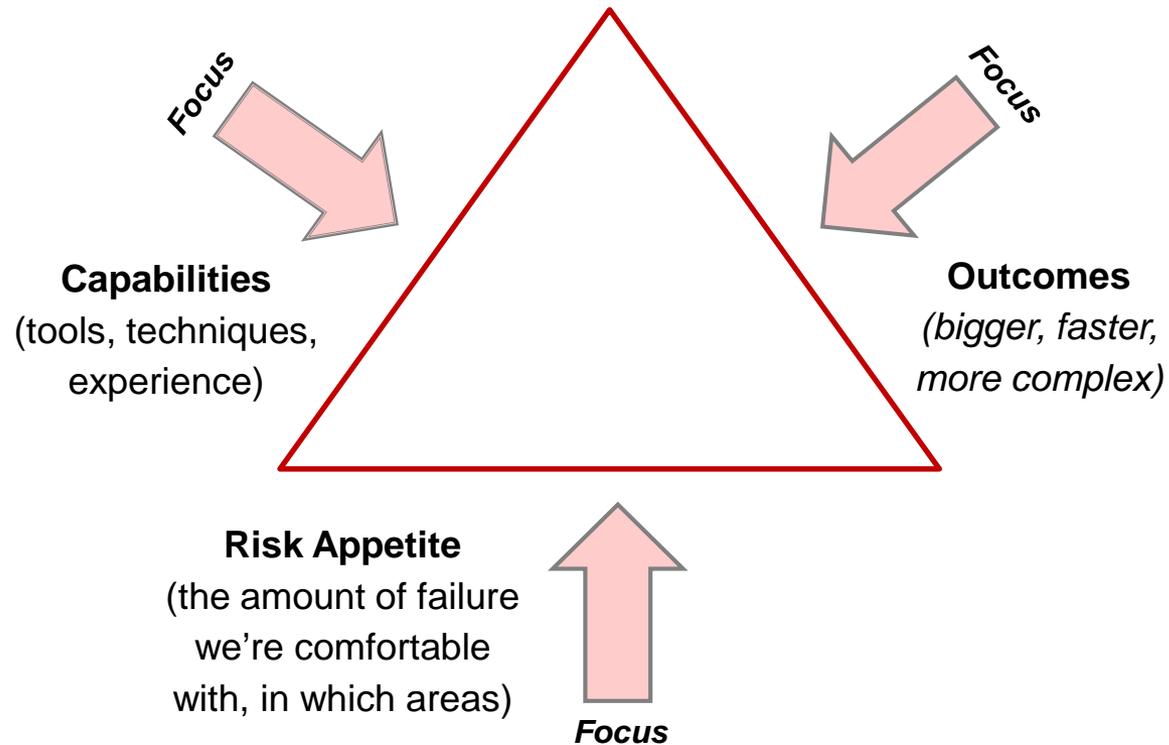*Project Management*
From: Project losses: **30%**
To: Project losses: **2%**

The iron triangle – Time/Cost/Scope – is a hygiene factor, not a game changer

The CORA Triangle

Capabilities
(tools, techniques, experience)

Outcomes
(bigger, faster, more complex)

Risk Appetite
(the amount of failure we're comfortable with, in which areas)

Focus

Focus

Focus

The CORA levers

- Capabilities (the maturity of our abilities)
  - Assess project management maturity – P3M3, OPM3
- Outcomes (the complexity of our ambitions)
  - Benefits Management; what does success look like?
  - Investment logic; is there demand-side management?
- Risk appetite (our comfort with the risks of failure)
  - Define: what must happen, what must not happen, what can we attempt that doesn't matter if we fail
  - Develop: a process for Risk Appetite management in projects
  - Practice: risk context management! – PMBoK, ISO 31000

Risk Appetite Process Projects

Risk Appetite – Organisational Context
Organisational Risk Appetite Statements (if available)
Organisational key priorities and key risks

Risk Appetite – Project Context
Project Drivers – what's broken that the project *must* fix?
(refer ILM if available)
What's not broken that *mustn't* break?

Determine Project Risk Appetite Areas and Levels
Very-low, Low, Medium, High

Draft Project Risk Appetite Statement
Risk Appetite areas and levels

Proceed to Project Risk Management Workshop
Project Risk Appetite Statements form first part of Project Risk
context discussions
Revise Risk Appetite Statements post-workshop

On-going Monitoring of Risk Appetite
Regular Review and Report on deviations from Risk Appetite,
especially very low, and high rated areas
Review Risk Appetite Statements as first stage of all on-going
Risk Management Workshops

A step-changed culture

- A level-3 organisation
  - and moving to level-4…
- A foundation of tailorable processes, expert support, and focussed training
- Advanced basics
  - multistage business cases, project QA
- Heroic leaders and managers
  - can make success happen in spite of the organisational constraints that surround them
  - managing the 'loss zone'
- Coherent ethos: the project's people, its purpose, and its plans
- A servant leader culture
  - Empowering, Humble, Authentic, Accepting, Directing, Stewards
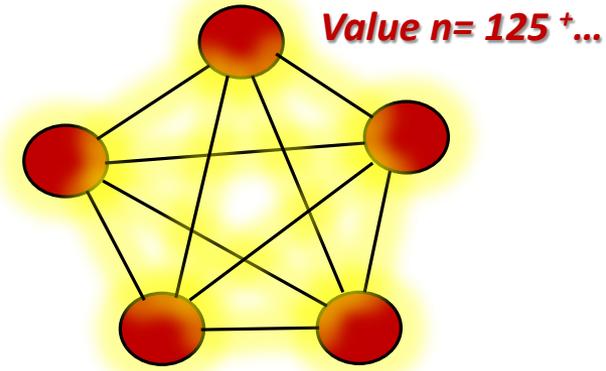
The power of servant leadership

Value n=4

Value n=25

Value n= 125 [+]...
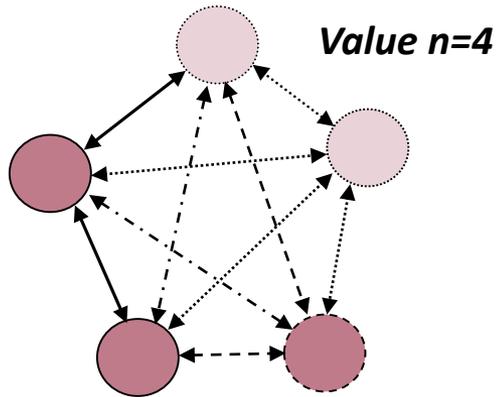
Team A – low engagement
- only two members fully committing
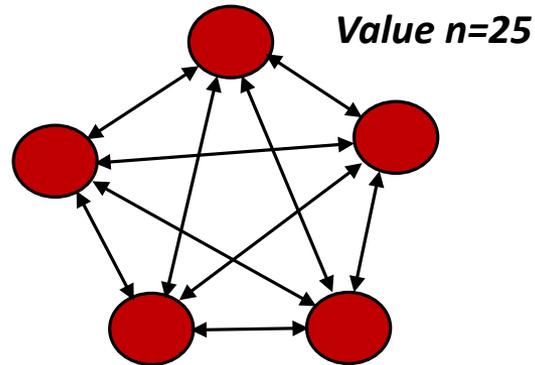
Team B – high engagement
- Servant leadership
- 5 members fully engaged

Team C – engaged, thinking
- Managed social pain
- Attuned judgement
- Reflective thinking

Risks reduce, success increases, costs come down

Thank you

Grant Avery

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www.outcomeinsights.com

(an AoG MBIE and GCIO assurance services panels provider)
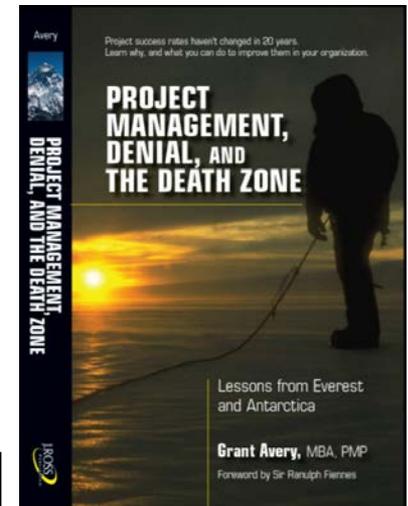*(a Treasury ICR panel P3M3 assessments provider)*

LinkedIn**:** Grant Avery

Project Management, Denial, and the Death Zone
(JRoss Publishing Inc, 2016)
Ref: *jrosspub.com*, *amazon.com*, or your favourite book web-site
PMI.com for recorded webinar and book-club discussion

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