



Risk - And How To Handle It...

While there's an element of risk in everything we do, it's the businessman's role to factor it in when it comes to signing that deal or starting that project. Mike Clayton, author of *Risk Happens!* looks at how to allow room for error in business by doing your research – and being prepared.



As a teenager, I devoured Isaac Asimov's non-fiction book, *A Choice of Catastrophes*, which catalogued the ways the world can end. These days there are no doubt more modern books on the subject to amuse yourself on a dull day, but the underlying message still stands: the world is a risky place! Of course, businesses and projects are rarely about to start Armageddon, but the fact is you need to be ready for when stuff goes wrong. The question is: how?

Each year since 2002, the Chartered Institute of Management (CMI) and the Cabinet Office have published a survey of business disruptions suffered in the previous year. Here are some of their findings.

The Top Business Threats

The CMI report shows that the main threats have stayed changed little in the last few years: extreme weather, loss of IT, loss of people, loss of telecommunications, transport disruption and loss of access to site are familiar challenges for business to face. But joining these higher risks in the 2012 survey are industrial action and school / childcare closures. Now you know, you have no excuse for being caught out by any of these in 2013!

What to do about threats

Whether you are responsible for a project, for business as usual, or your child's birthday party, spotting threats is not enough: you need to do something. The underlying process is always the same and can be adapted to risk management, contingency planning and even business continuity preparations. It consists of five steps.

The Top Project Threats

My book, *Risk Happens!* lists the 10 main threats that cause projects to fail. Of these, the ones I'm hearing of most in the UK are currently: lack of engagement and active support from senior leaders, stakeholders across the organisation holding unrealistic expectations, an over-focus on contract costs rather than a more sophisticated assessment of the balance of risk, cost and value, and an over-commitment of the organisation to more projects and initiatives than it has the resources for.

5 steps to foreshadow threats

Step 1: Identify

Understand the context in which the threats will arise, the priorities that dominate, and the scenarios that could arise. Use these to identify as many threats as you can: work out what could go wrong. There is a wide range of techniques you can use beyond the familiar (and useful) approach of brainstorming.

Step 2: Analyse

How seriously should you treat each threat? Play out scenarios to understand the effects on processes and priorities. Cost these impacts in terms of what matters most to you: cash, delay, reputation, harm, etc. Also estimate the relative likelihoods and the proximity of the threat and combine these factors to prioritise them. For business continuity threats, the CMI report tells you, for example, that over the last three years, on average, 57% of respondents experienced disruptions due to bad weather. If bad weather could affect your business, you have ten months to prepare.

Step 3: Plan

If you have any, evaluate your existing plans and either strengthen them or develop new ones to reduce threat levels and prepare your organisation or project for adverse scenarios. Contingency and business continuity plans need to address all critical process areas, like IT, staff, communications, data and core operations.

Step 4: Action

Put your plan into action on four fronts:

- Manage threat levels and risk likelihoods downwards
- Prepare for adverse contingencies
- Rehearse continuity and recovery plans
- Communicate roles and responsibilities robustly

Step 5: Monitor and control

Exercise your continuity plans and review outcomes. Assess the impact of threat reduction measures. Continually scan for new risks. The diligent process of plan-do-review is your best defence against complacency. By introducing new people to the process regularly, you can get independent views on your work so far and fresh eyes on the threats you face.



Expect the Unexpected

Nassim Nicholas Taleb coined the term “Black Swan events” to represent events that are beyond our normal expectations, that have significant disruptive impact and for which convincing post hoc explanations are always available: that is, Black Swans are always predictable in hindsight; but never in advance. Yet we know Black Swans exist, so what can you do?

Prepare for the Unexpected

You don't know what Black Swan events to expect in your project, programme or organisation, but you can be sure it is worth preparing for them. So instead of worrying about what, focus on how. Look at how an unexpected incident could affect you, rather than what that disruption might be. How robust is your project or organisation to a set of simultaneous disruptions? And what can you do, to strengthen it?