Communicating Risk to Program Managers

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Abstract

Program Managers (PM) can protect program resources and improve chances of success by anticipating, understanding and managing risks. Understanding the range of potential risks helps one to avoid or manage the risks. A PM must choose which risks to accept to reduce fire fighting, must meet the expectations of stakeholders consistently, and avoid falling into costly "black holes" that may open.

A good risk management process provides the PM more confidence to seize opportunities save money, meet schedule, even improve relationships with people important to the program. Evidence of managing risk and sound internal controls can mean better support from superiors for the program by building a trust and reputation from being on top of issues. Risk managers have an obligation to provide the PM with the best information possible to allow the benefits to be realized (Small Business Consortium, 2004).

The Institute for Chartered Accountants in England and Wales "sees very important benefits for companies in providing better information about what they do to assess and manage key business risks. Such information will:
• provide practical forward-looking information;
• reduce the cost of capital;
• encourage better risk management;
• improve accountability for stewardship, investor protection and the usefulness of financial reporting. We are particularly convinced that enhanced risk reporting will help listed companies obtain capital at the lowest possible cost (The Institute of Chartered Accountants in England & Wales, June 2002)."

Risk managers can take a significant role in quantifying the success of their department and communicating those figures to executive (program) management levels while pushing for a broader risk management role. Overall, risk managers must show that risk management work matters in the most crucial place—the bottom line—as they prove risk management can be a profit center (Sullivan, 2004).

Objective

Risk managers have an opportunity to provide a valuable service to their programs, projects, or other business enterprise entity by effectively communicating information upon which managers can act. Providing information in a manner that PMs understand and that focuses decision making and follow on actions for the greatest benefit should be the goal of all risk management professionals. Providing the information in a manner that maximizes the probability of clear PM understanding is necessary.

This paper is written to provide risk management professionals helpful guidance on presenting risk information to PMs or other managers.

Literature Review

A limited literature review provides a wealth of information, definitions, case studies and advice for managing risk. Much of the information comes from the industry sector and is related to financial risk and property loss protection via insurance companies and their risk reduction activities performed for clients. However, the information is as applicable in the program and project world as it is with respect to the financial health of a business enterprise. The terms business, company, organization, program, etc. are used interchangeably for purposes of this paper.

Introduction

A British Small Business Consortium reports that many believe that early warning of potential issues can help prevent crises and the associated negative impacts. The public now holds government, industry and academic entities even more accountable for environmental, social, and economic activities but few have programs to systematically identify and evaluate these particular risks (Small Business Consortium, 2004).

Organizations must develop a strategy for risk reporting that responds to the needs and views of a wide range of stakeholders. Providing information on risk is a vital factor in helping organizations...
succeed. (The Institute of Chartered Accountants in England & Wales, June 2002).

Any organization needs to ensure that it has a proper continuous risk management process, generally involving the following steps:

• identify, rank and source the inherent risks in the strategy;
• select the appropriate risk management approaches and transfer or avoid those risks that the organization is not competent or willing to manage;
• implement controls to manage the remaining risks;
• monitor the effectiveness of risk management approaches and controls;
• learn from experience and make improvements. (The Institute of Chartered Accountants in England & Wales, June 2002).

Risk managers must ensure the risk management process is coordinated and management is fully informed by making sure proper availability and flow of information to all the steps takes place. Ideally internal information flows are designed to satisfy both internal and external reporting requirements and are not “additional burden” over other business processes. Many management actions will be undertaken during the normal course of business. Normally a range of management actions will be undertaken to address the body of identified risks (The Institute of Chartered Accountants in England & Wales, June 2002).

In order to provide the PM with needed data, risk measurements must be designed and executed. There is no standard way in which to measure risk. Programs that are better at measuring risk will be better at allocating capital internally and deciding on the most cost-effective way to manage a risk – for example, by transfer or control. There are a variety of measures of risk, such as:

• accounting measures, such as contingencies, provisions, expected values, discounted cash flow valuations;
• non-accounting performance measures, including external data;
• sensitivity analysis of the effects of changes in key variables on both accounting and non-accounting measures;
• value at risk related to accounting measures (The Institute of Chartered Accountants in England & Wales, June 2002).

Such risk information can be used to further analyze some types of risk:

• Measures of concentration, reliance on particular customers or suppliers can be an indicator of risk.
• Trend analysis, which provides information about trends and how they compare to management’s expectations and plans, can be useful in demonstrating the effect of changes in gross risks or the effect of management’s actions to mitigate risk.
• Benchmarking to similar entities can be important where competitive pressures are a major source of risk. Managing risks better than a competitor can lead to a crucial competitive advantage. Although accounting information is likely to be highly relevant in reporting on many risks, other risks require a different approach (The Institute of Chartered Accountants in England & Wales, June 2002).

Safety aspects of risk include accidents that result in costs for lost productivity, human suffering and related expenses, loss of capital equipment, delays of schedule, etc. Management decisions will be based on organizational strategies and risk tolerance posture and are likely to be focused on the accounting type information as a bottom line, but focusing on leading indicators such as accident rates, compliance with System Safety requirements as programs mature, etc. might give the PM the early warning information needed to avoid those potential costs.

This paper begins with a discussion of PM or other manager needs related to risk management information, followed by discussions of how data can be collected, packaged, and presented. Finally, a discussion on follow up is provided.

What Information do Program Managers Need?

Unfortunately in the risk management world, only when problems arise can tangible results be seen, so risk managers must show what might have happened and the losses that would have resulted without actions taken. In a corporate sense, one might consider that situation to be profit-making in reverse—the negation of detrimental actions that allows a company to prosper.

One must first determine how risk management is linked to the concerns of program management. According to a survey of CFOs, business executives worry about:

• achieving financial targets
• maintaining liquidity
• business strategy
mergers and acquisitions
balancing risk and reward
rating agencies
financial analysts
internal and external stakeholders

Most of these worries, or a reasonable equivalent, can easily be extended to the Program Manager since, depending on the type organizational home, the PM's successes affect a bottom line of performance in the same or similar ways. The message is that for a risk manager to be effective in communicating risk information, the information needs to be linked to the concerns of the PM (Sullivan, 2004).

Each risk manager must investigate how these theories of executive concerns specifically apply to his or her company. In addition, the risk manager needs to consider how risk management activities affect the concerns. Events and risk management's response to them must then be tied to the key performance measures and metrics of the company. Some leading companies link risk management with strategic planning to enhance their competitive advantage and increase overall business performance. The risk manager should step up to this interest (Sullivan, 2004).

So, by understanding a PM's perspective, the risk manager can tie the risk management activities to those needs and to program performance measures and metrics, such as customer satisfaction and tying all results to those measurements.

The most important thing is making sure risk managers have the "metrics that matter," i.e., ones that are important to the business, expressed in terms of the business, driven by business goals and based on objective measures. According to Stevens (Sullivan, 2004), strategic information, provides the following:

- an understanding of risk by identifying, quantifying and prioritizing risk.
- influences the organization and leadership as a catalyst to change behavior.
- aligns risk-taking to an organization's strategic direction.
- reduces costs by clearly communicating issues and impacts of risk management activities.

The manager's needs must be satisfied by the process established such that the process results in

- identifying the principal risks and, in qualitative terms, the nature of the potential impact on results and of trends and factors underlying the business that have affected the results but are not expected to continue in the future; and
- known events, trends and uncertainties that are expected to have an impact on the business in the future (The Institute of Chartered Accountants in England & Wales, June 2002).

How do Risk Managers Obtain the Necessary Information?

Although managing risk has always been considered important, it has generally been managed as a separate function. A company-wide, integrated procedure in place to monitor and control risks is important (The Institute of Chartered Accountants in England & Wales, October 2002).

A good risk management program must be an integral part of an organization's overall strategy and must be structured to obtain the needed information. Again, The Institute of Chartered Accountants in England & Wales provides guidance, "As a backcloth for communicating about risk, companies should communicate their overall strategy and their process for developing the strategy. Then:

- companies should be open about the risks involved in implementing their strategy, so that there is a common appreciation of what they are;
- directors should communicate clearly what actions they are taking to manage these risks, providing sufficient information to allow stakeholders to make a judgment about the risks being undertaken;
- when reporting performance, directors should report promptly and in a balanced way (The Institute of Chartered Accountants in England & Wales, June 2002)."

The Small Business Consortium, while acknowledging that there are many ways of analyzing risks, provides a basic structure for designing a program that obtains the appropriate information about risks. The structure must provide for allocating risk into categories - important in the drive to achieve comparability in risk reporting.

Information should be organized electronically and compared on a consistent basis. However that comparability can only be achieved by the widespread use of common classification schemes.
Further development of useful classifications is a prerequisite for consistent risk reporting but reporting against every risk on a standard checklist is counterproductive. The aim is use of a common menu to report on the most relevant risks. Risk is further analyzed between operations, empowerment, information processing technology, integrity and financial. Prioritization in the choice of what to report is a key element in successful risk reporting while a boilerplate list will not deliver the information required (Small Business Consortium, 2004.)

- List the risks that are significant for the program.
- Focus on the important ones and set up clear management policies and controls.
- Think about risk comfort levels and establish limits.
- Identify simple performance markers and watch the information feedback.
- Train directors to consider the wider risks.
- Designate responsibilities.
- Involve employees and suppliers in discussion about risk and risk actions.
- Keep it simple.

The reporting process “doesn’t have to be time consuming or complicated. It’s basically common sense (Small Business Consortium, 2004).”

Risk management data must be reliable. Sullivan states, “Most importantly, risk management data provides an argument only as strong as its reliability.” Some managers have developed methods of evaluating metrics to help ensure reliability. Dan Kugler, the risk manager at Snap-on Inc., evaluates five qualities in the metrics he uses—measurable, clear owner, directly related to important needs, resistant to actuarial analysis and controllable by the company. Because risk managers cannot assume the source of the data is responsible for its quality they must adhere to data management best practices, including monitoring feedback from the data and tracking its effectiveness (Sullivan, 2004).

Kenneth Krenicky, Senior Vice President, Risk Management, Aventis, relates the importance of a team approach to risk management processes, “No one person can be the risk manager for the whole corporation because there is risk in everything. One of our missions is to put a risk mindset into the company, but we realized that you cannot ask any one department or any one person to know all areas of business. Now we have a process in place where people can talk openly and in a sense, anonymously. So we can simply say “the committee recommends” or “the workshop recommends,” not “Joe Smith recommends.” That way things can really be discussed and get across the silos in a company (Risk Management Magazine, October, 2004).

How Should Presentation Information be packaged?

The most essential point: keep it simple. Whether presented in text, graphs or photographs, a few key points that are well developed and well supported are more likely to have a greater impact. As Gary Kilburg, director of risk management at the Whirlpool Corporation suggests, senior executives need clarity, context and consistency (Sullivan, 2004).

Based on this comment, one might conclude that while packaging might be important, it is perhaps that packaged that is more important. The presenter must endeavor to provide the details the PM needs, while not allowing the message to be obscured by excess detail, trivial information not related to analysis and management of the key risks, or “over-cooked” creativity in presentation media chosen. Clearly the presentation packaging must be consistent with the organization’s culture and any specific requirements that might exist. Distractions caused by a unique approach to presentation rather than clear presentation using familiar techniques might be detrimental.

A suggested approach would be, using standard and commonly accepted formats and media, present a brief introduction, an explanation of the agenda to be followed, and go to the key issues, including rationale and recommendations as appropriate for the forum.

How Should Risk Information be Presented?

Cindy Stevens, director of treasury and risk finance at Labor Ready, Inc. in Tacoma, Washington, suggests risk managers use what she calls “strategic information,” to deliver the message in the metrics with which executives are already dealing and gear that information toward analytical tasks (Sullivan, 2004).

Managers are interested in “hard data” that represents “hard facts,” such as earnings per share or cash flow impact (Sullivan, 2004). The PM needs to know potential schedule threats, hazards
that might become manifest, cost threats, and mitigation opportunities available. Direct presentation of the issues can help avoid misunderstandings of facts and probabilities and consequences of risks becoming problems.

Gary Kilburg, director of risk management at the Whirlpool Corporation suggests that senior executives need clarity, context and consistency (Sullivan, 2004). Kilburg customizes reports for different audiences—treasury, CFO and the board of directors, operations and manufacturing leaders, and worldwide controllers and regional CFOs—and also emphasizes the human interaction that precedes and follows the results presented on paper.

Key questions could be asked to determine of managers are getting the right information:
• Does the current management information provided give sufficient early warning of potential problems?
• Is there awareness of trigger events, or frequency of events, for each significant risk which should alert management to a potentially significant issue?
• Does potential news travel quick enough and is action taken quickly enough? (Centre for Business Performance, 2004).

Some present and former senior managers at NASA were consistent in stating how they preferred to get risk information. The consensus was that risk information needs to be timely, accurate, and truthful. Further, David King, Director, Marshall Space Flight Center recommends that the risk manager or presenter be able to “ask the next question.” In the sense of the presentation of risk data, that means to be able to look at the data being prepared for presentation and going beyond the surface to identify questions that the information might generate. Ask the “next question” that gets at the root of why the threat exists and why the recommended course of action is thought to be effective and within the organization’s strategy (based on personal conversations and viewing televised panel discussions).

Certainly, allowance for open discussion with the PM and others present must be included. Anticipation of discussion comments can help the presenter to include comments within the presentation, either as primary presentation or backup material, or to mentally prepare answers for potential questions. In any case, to the risk manager’s best ability, the information presented must include the key hard facts that can lead management to making the correct decisions if the additional discussions do not materialize as imagined.

How Should One Follow Up?

Follow up on risk management information and decisions is critical. Kilburg believes strongly in this last point; follow up in person. Kilburg arranges face-to-face meetings, quarterly international risk conference calls, operations reviews and plant and office visits worldwide. Reports also need not be only once-a-year occasions. Dan Kugler, for example, makes presentations on a semiannual, bimonthly and monthly basis, “Whether on paper or in person, continually delivering the message of risk management’s contribution maintains its reputation for saving money for the bottom line (Sullivan, 2004).”

Conclusion

Risk management is a response to the fact that the world has become more risky, i.e. dangerous, according to Michael Power. “Claims for the benefits of risk management are numerous. In financial services organizations, risk management has enabled a new focus on asset and earnings quality. In the corporate sector more generally, risk management has become perceived as integral to business strategy and to value creation. Risk management has been shifted from a back-office, transaction-veto defensive role into a fundamental part of the business model. ... And in all these settings it is widely accepted that the managed taking of risks is essential to progress and the creation of value – with the exception of extreme enthusiasts for the precautionary principle (Power, 2004).”

Power concludes, “A growing activism and individualism in the environments of organizations, amplified by political pressures, has resulted in an intensification of internal control practices. From this broad point of view, despite the positive talk, the new wave of risk management can be regarded as a defensive reaction to an increasingly demanding environment (Power, 2004).”

Regardless of opinion on why risk management exists or has come into heightened importance of late, facts support the conclusion that risk management, when systematically and consistently applied, does provide benefits to organizations. It is incumbent on the risk managers to ensure provision of adequate, needed information to management. The following comments indicate
how successful risk managers improve the success of their organizations by showing the value of their contributions.

Ellen Vinck, the vice president of risk management and benefits at United States Marine Repair, Inc., has risen to upper management at her organization and has made risk management such a fixture that company executives expect to hear routinely how much money the department is saving the organization. She says that she never asked permission to push things forward; she took the initiative and just did it (Sullivan, 2004).

Richard Sarnie, Director, Risk Management, Insurance and Security, Engelhard Corporation says, “At heart, I'm a safety engineer by training and by trade, so one of the first things I look at is how you can prevent a problem from happening. As a safety engineer, I used to hate when the insurance inspector used to show up at the plant—Hector the Inspector, Charlie Checklist, whatever you want to call him. He didn't know the company, he didn't know the plant and he spent the whole day walking around telling me things I already knew. I totally changed that process at Engelhard. We still have outside service providers show up at the plant, but they are certified safety professionals hand-picked by me, and they assess, they assist and they help the plant. That has generated a lot of positive feedback. Let's face it: the people running these plants are in charge of multimillion-dollar operations and know what they are doing. Why do we have to treat them like children? We go in there, provide them with a resource and now, they pick up the phone and call me if they have an issue or a problem and they ask for me to send in somebody from loss engineering. They're asking for assistance before there is a problem. You know you're successful when your customer, the plant, is asking for more help, not less (Risk Management Magazine, October, 2004)."

According to Jonathan Lawlor, Corporate Risk Manager, Louis Dreyfus Holding Company Inc., "Success stories work and you get them by reducing costs or reducing the amount of time needed to solve problems. If you can do that, your people will be welcome every day (Risk Management Magazine, October, 2004)."

James Duggan, Vice President – Risk Management, Security & Corporate Services, Coty Inc., makes the point that "once you give some decent advice and have some good, solid reasoning for that advice, they start coming to you all the time (Risk Management Magazine, October, 2004)."

“Risks” can mean that realized goals are very different from intended, desired goals. Therefore, as risk can have a large impact on performance, it should be of prime concern to managers. A risk-based approach can make an organization more flexible and responsive to fluctuations making it better able to satisfy customers' ever-changing needs in a continually evolving environment (Centre for Business Performance, 2004).

Effective risk management and internal control can be used to manage change, to involve all levels of people in the organization in meeting its business objectives. Therefore, the proper focus on risk management and internal control can result in considerable benefits being gained (Centre for Business Performance, 2004).

The Author

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Many presentations on Industrial Safety, Risk Management, and Engineering Ethics to professional societies and NASA work groups.

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Introduction

- Program Managers (PM) can protect program resources and improve chances of success by anticipating, understanding and managing risks.
- Risk managers have an obligation to provide the PM with the best information possible to allow the benefits to be realized.
- Risk managers must show that risk management work matters in the most crucial place—the bottom line
- Providing the information in a manner that maximizes the probability of clear PM understanding is necessary
Risk Management Processes

- Organizations need a proper continuous risk management process
- Risk managers must ensure the risk management process is coordinated and not an “additional burden”
- Risk measurements must be specifically designed and executed to provide the PM with needed data
What Information Do Program Managers Need?

- Tied to the key performance measures and metrics of the company
- "Metrics that matter," i.e., important to the business, expressed in terms of the business, driven by business goals and based on objective measures
- The potential impact on results and of trends and factors underlying the business
How Do Risk Managers Obtain the Necessary Information?

- Company-wide, integrated procedure in place to monitor and control risks
  - Integral part of an organization’s overall strategy
  - Structured to obtain and report the needed information
  - Common classification schemes
  - Provides for reliable data
  - Simple, with broad employee involvement
How Should Presentation Information be Packaged?

- Simple is better
- Senior executives need clarity, context and consistency
- Messages may be obscured by excess detail, extraneous information, or “over–cooked” presentation creativity
- Consistent with organizational culture and requirements
- Efficient, standard agenda
How Should Risk Information be Presented?

- Use “strategic information,” to deliver the message in the metrics with which executives are already dealing
- “Hard data” that represents “hard facts”
- Clarity, context and consistency
- Timely, accurate, and truthful
- Answer the “next question”
How Should One Follow Up?

- Follow up in person
- Follow up frequency depends on the issue
- “Whether on paper or in person, continually delivering the message of risk management’s contribution maintains its reputation for saving money for the bottom line (Sullivan, 2004).”
Conclusion

- Risk management - a fundamental part of the business model
- Systematically and consistently applied risk management benefits organizations
- Success stories work - you’re successful when your customer, the plant, is asking for more help, not less.
- “Once you give some decent advice and have some good, solid reasoning for that advice, they start coming to you all the time (Risk Management Magazine, October, 2004).”
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