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## *Specialists in Strategic and Project Risk Management*

### **Organisational and Cultural Aspects of Risk Management Implementation Dr Dale F Cooper, Director, Broadleaf Capital International Pty Ltd**

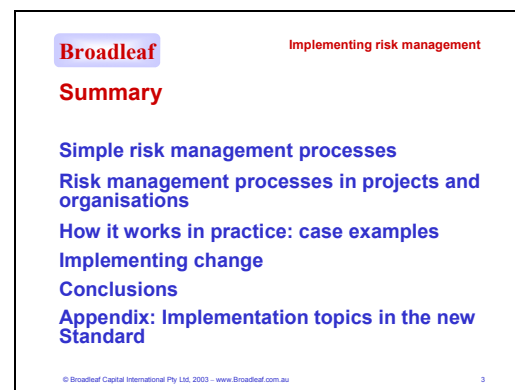
Invited paper presented to a workshop on Integrating Risk Management Processes into Project Management sponsored by the Centre for Advanced Engineering, University of Canterbury, Christchurch, New Zealand, on 5 November 2003. The workshop was part of the 2003 Conference of the Project Management Institute of New Zealand (PMINZ), held in Christchurch over the period 5-7 November 2003.

**Acknowledgement:** The author wishes to thank the Centre for Advanced Engineering for inviting him to attend the Conference, supporting his travel and providing wonderful hospitality in Christchurch. The CAE is a not-for-profit organisation established in 1987 to commemorate the centenary of the School of Engineering at the University of Canterbury and based at the University. For more information about the CAE, see [www.caenz.com](http://www.caenz.com).

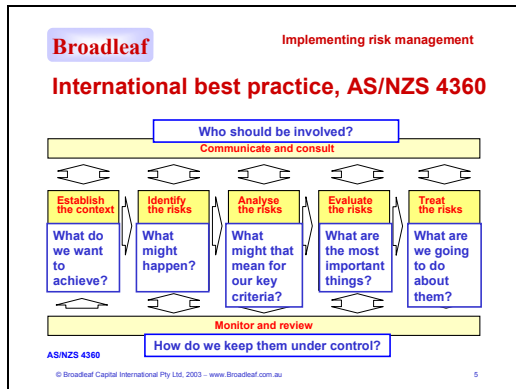


This is a summary paper on implementing risk management processes in organisations, with examples from different kinds of organisations and different cultures. The coverage is wider than just project-based companies, and the focus is on the broader corporate implications rather than just for the project team.

This presentation has benefited from thoughtful reviews by colleagues, particularly Pauline Bosnich, Barry Leithhead and Phil Walker.



# 1 Simple Risk Management processes

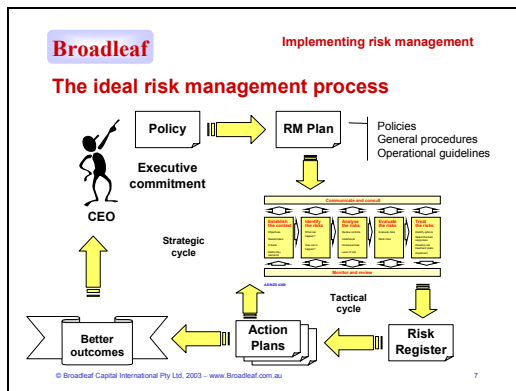


The Australian and New Zealand Standard, Risk Management, AS/NZS 4360:1999, has become international best practice. (A revised version of the Standard will be published in 2004.)

The overlay boxes indicate the questions each step of the risk management process are designed to answer.



Embedding is a prime focus of risk management implementation, whether in an organisation or in a project, but making risk management an integral part of 'business as usual' is not always easy to achieve.



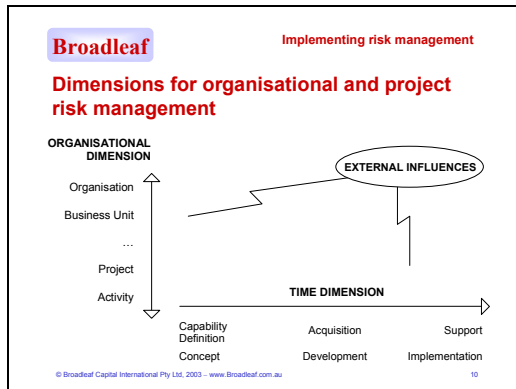
The strategic cycle often involves long time frames and a wide organisational focus.

The tactical cycle is usually more immediate and focused on specific actions and business areas.

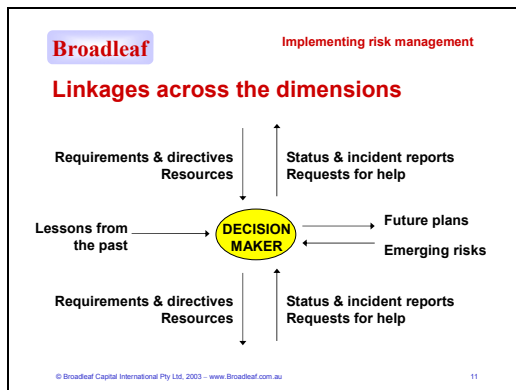
For a project, there should be a policy and a Risk Management Plan. Often these will be part of the overall Project Plan.

For smaller projects, project risk management may focus on the tactical cycle. For larger projects, and for project management organisations, the strategic cycle takes a more important role.

## 2 Risk Management Processes in Projects and Organisations

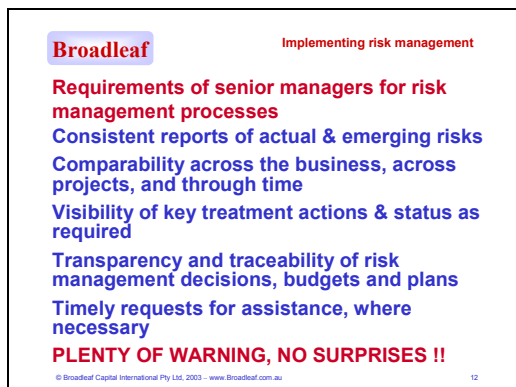


- Organisational and project risk management processes must take account of several aspects or dimensions that apply to most such processes:
- The organisational dimension, how the process is structured and integrated between different levels in the organisational or project hierarchy;
  - The time dimension, how the process progresses through time and the timing of different facets of it;
  - External influences that may change the structure or the process (and which will not be addressed in any detail in this presentation).



- The linkages flow through the organisational and time dimensions:
- Requirements and directives flow down the organisation, as do budgets and resources;
  - Reports on status and incidents flow up the structure, as do requests for resources and other assistance;
  - Flowing through time are lessons from the past, as well as plans for the future;
  - Emerging risks can be thought about as flowing back through time, as the decision maker looks forward (into her crystal ball) to predict what the future may hold.

This simple framework applies in projects, whether the decision maker is a project director looking after several projects, the project manager, or a task manager or supervisor within the project delivery organisation.



It is important to keep in mind why we are interested in risk management process design. Better project outcomes are an end point, but there are other important reasons too: effective management, efficient resource allocation, and good corporate governance.

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**Integration across the organisation: how best to achieve it?**

Corporate

Project or Business Unit

**A consistent and systematic process must consider:**

- Business objectives
- Organisation structure
- Organisation culture

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Integration is not necessarily ‘hard’ systems integration, although this may be included. Critical aspects are communication and consultation structures, monitoring and reporting processes, and alignment of risk management activities with other business processes, including planning, budgeting, resource allocation and work scheduling. The inclusion of risk management criteria in performance agreements may also play a part.

### 3 How It Works in Practice: Case Examples

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**RM in simple or internal projects**

Case: resources companies  
 Dominant culture: engineering  
 Sub-cultures: safety  
 Focus: engineering excellence (within budget)  
 Risk understanding: technical, operational, safety, environment, community  
 Other features: multi-disciplinary teams, willing to use experts, high-level requirement for risk management, limited integration with commercial risks (markets, marketing, currencies, ...)

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Resources companies tend to be mildly risk-averse; many of them are explicit risk-takers in their exploration activities, less so in development, and risk averse in operations, particularly in relation to mining and processing operations where there is usually a strong focus on safety and long-term performance of assets.

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**RM in simple internal projects**

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The Risk Register is likely to transition from one phase to the next, being modified rather than re-started as the project progresses.

This is a simple application of the risk management Standard, in a more-or-less linear fashion.

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**Integrated RM across a project**

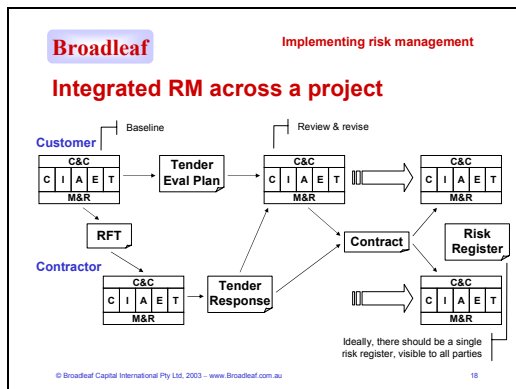
Case: Defence high-technology acquisition  
Dominant culture: military  
Sub-cultures: engineering, bureaucratic  
Focus: delivery process and outcome, quality of product  
Risk understanding: technical, operational, support  
Other features: strong senior support (in patches), many stakeholders with organisational separation, complex approvals processes, mildly risk-averse

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Defence organisations, like many bureaucracies, tend to be risk-averse. Often they are inexperienced in commercial risks.

A similar structure might be appropriate for the relationship between a prime contractor and the principle sub-contractors.

The initial analysis conducted by the customer might be at relatively high level, to identify risky areas of the project rather than individual risks. This approach may be necessary if there is latitude in the way in which contractors may seek to fulfil the contract requirements, for example if different project approaches or equipment choices are possible, with different levels of associated risk. We have used semi-quantitative approaches for identifying project activities or system elements with the greatest inherent riskiness, as a guide to the structure and focus of the Tender Evaluation Plan.



When tenders are received, the baseline assessment can be revised to taken account of the way each contractor proposes to undertake the project.

After a contract has been signed, a detailed risk assessment can be undertaken, as now much of the detail of the approach and equipment is known.

After the steps shown here, the process might become more linear, as in the previous example.

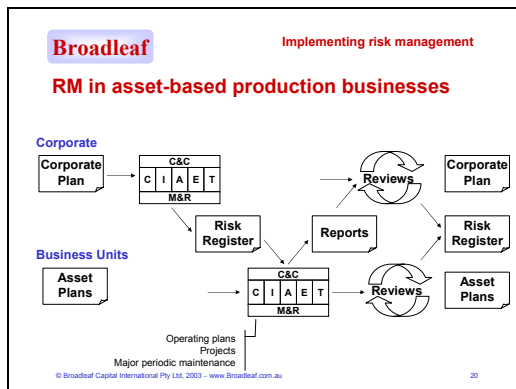
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**RM in asset-based production businesses**

Case: utility companies (power, water)  
Dominant culture: engineering  
Sub-cultures: bureaucratic  
Focus: asset performance  
Risk understanding: asset-related, technical, maintenance, safety  
Other features: strong on asset management processes (including risk), confronting trading and market risks

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Utilities companies tend to have a dominant engineering culture, with a focus on engineering excellence and asset performance. The bureaucratic sub-culture is often an artefact of their former (or current) Government ownership. While this may lead to a degree of risk-aversion, in our experience this is often a minor feature, but nevertheless one that should be considered.



The introduction of product markets, particularly for energy, has introduced a new market-based culture. Due to the novelty of this area in many energy generators, the approach has been cautious and risk-taking has been limited. However, there have been one or two major losses in the energy market in Australia, primarily associated with long-term contracts and hedging (or the lack of it).

We tend to start at the organisational level in business like this, as this reinforces the commitment of senior management to the process. There is usually a very sound understanding of risk as it applies to the main assets of the business, but the changing commercial environment is often a major driver for asset decisions, particularly as utilities markets become more competitive.

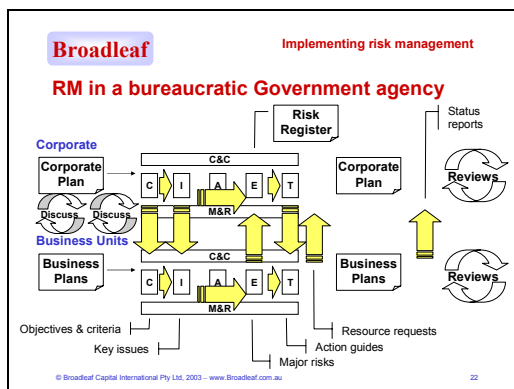
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**RM in a bureaucratic Government agency**

Case: large Government central agency  
Dominant culture: bureaucratic  
Sub-cultures: bureaucratic, ingrained cynicism  
Focus: process and approval compliance, audit  
Risk understanding: process-based, fraud  
Other features: risk-averse, wary of change, limited understanding of business risks, strong senior management support, strong links to planning

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- The keys to successful implementation here were:
- The initial effort in 'selling' the concept to the staff (the discussion cycles on the left-hand side of the diagram were critical in the initial process of gaining acceptance and commitment);
  - The strong drive from senior management to integrate risk management with the annual planning and budgeting process;
  - The promise of a simplified and less time-intensive planning process;
  - The support risk management provided for stronger arguments for additional resources.



The major feature of this implementation was the integration of individual components of the 'Standard' risk management process itself, to increase control, guidance and traceability.

The review processes on the right-hand side of the diagram lead into the next cycle of planning.

(A slightly cynical example of cynicism in this environment: "There are only two kinds of people out there, tax cheats and potential tax cheats!")

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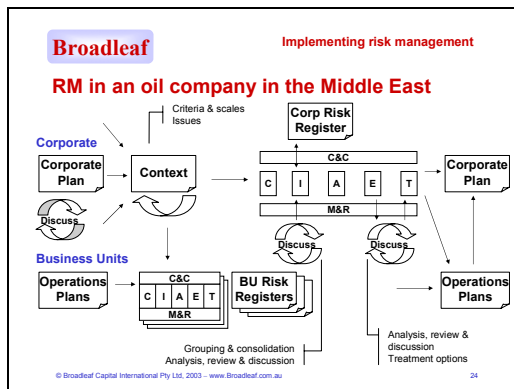
**RM in an oil company in the Middle East**

**Case:** Middle East oil and gas producer  
**Dominant culture:** Arab  
**Sub-cultures:** engineering, expatriate (various)  
**Focus:** need for consensus, opportunities as well as risks  
**Risk understanding:** technical, process, safety  
**Other features:** courtesy, time-keeping and timing, centralisation of power, misalignment of responsibility and authority, blame culture

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The culture in this organisation was slightly bureaucratic at the top level, with a focus on engineering and assets at the business unit level.

For an excellent guide to business in the Middle East, see:  
Jeremy Williams, 'Don't They Know it's Friday? Cross-Cultural Considerations for Business and Life in the Arabian Gulf', Gulf Business Books, Motivate Publishing, Dubai and London, 1998, ISBN 1 86063 074 X.



There was a great need in this company to develop an agreed approach to risk management and the way it would integrate with other organisational processes, particularly the planning cycle. This required considerable discussion in the early stages, and an iterative process to establish the context.

The context stage included inputs from:

- Major shareholders;
- The Corporate Plan;
- Business and support units;
- Major project teams.

The risk management process works on an annual cycle, integrated with the corporate planning process. Operations Plans are one-year plans, forming the first year of the rolling five-year Corporate Plan.

Issues (key elements) do not change much, as this is an operating business.

## 4 Implementing Change

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**Radical culture change is rarely possible**

Culture is a composite of:

- Tangibles: kind of business, stakeholders, products, size, location, resources, facilities, structure, processes, competitive position ...
- Intangibles: values, attitudes, assumptions, beliefs, expectations, norms, standards ...

What can be changed easily:

- ✓ Work procedures, knowledge, skills
- ? Attitudes, organisational structure, reward systems

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**Challenges in modifying an established culture: simplified examples**

Engineers are attuned to risk and risk management processes

- Technical and related risks are handled well
- ... but commercial and strategic risks are sometimes overlooked

Bureaucratic cultures need to be addressed carefully

- There are often practical and procedural constraints
- Risk-aversion may be ingrained

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**Phases of change**

Analysis and planning  
Communicating about the change  
Gaining acceptance  
Initial transition  
Consolidation and follow-up

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We often talk about creating a risk management culture in an organisation. In practice, we are usually forced to overlay a risk management culture on top of or embed it into an existing one: changing a well-established culture in a dramatic way is unlikely to be possible, but we can hope to effect modifications at the margins.

Harmonising attitudes to risks, risk taking and control in line with organisational standards rather than individual approaches is essential. It can be often be achieved, in part, by standardising the evaluation scales for consequences, probabilities and levels of risk that are used in the risk assessment process. This is an example of enforcing a uniform work procedure on the way risk management is undertaken in the business.

Another aspect of culture change relates to 'imagining the future', a necessary part of strategic risk identification that involves more than a direct focus on (or even simple a extrapolation from) the immediate tasks and activities the organisation undertakes. This is an example of an attitudinal change that often takes longer to instil in the organisational culture than simple procedural modifications.

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**Analysis and planning: making a start with culture change**

Start with the easy areas

- > Simple and acceptable changes, independent areas, supportive culture
- > Demonstrate quick successes and immediate benefits
- > We often start with projects

Design with growth in mind

- > Build processes that cope with projects, corporate, business and support units

Identify and plan tactics carefully

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In our consulting activities, we often start organisational risk management implementation in project areas. This is a sound approach, as projects tend to be a bit independent of the 'routine' functioning of the organisation, and so they can be separated from many of the common organisational inhibitors. In addition, project management, which is all about risk, provides a very supportive culture.

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**Some practical first steps (1)**

| Activity   | Plan | Comm'n | Accept | Trans'n | Consol |
|--|------|--------|--------|---------|--------|
| 1 Review current practices & future requirements           | ✓    |        |        |         |        |
| 2 Identify inhibitors                                      | ✓    |        | (✓)    |         |        |
| 3 Draft processes & procedures                             | ✓    |        |        |         |        |
| 4 Generate success stories                                 |      | ✓      | (✓)    |         | (✓)    |
| 5 Foster champions through the organisation                |      | ✓      | (✓)    | (✓)     | (✓)    |
| 6 Leadership from the top                                  |      | (✓)    | ✓      |         | (✓)    |
| 7 Review & trial processes & procedures with key personnel | (✓)  | (✓)    | ✓      | (✓)     |        |
| 8 Strive for consistency through the organisation          | (✓)  | (✓)    | ✓      |         |        |

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These activities are not necessarily performed in this sequence. Many have multiple beneficial effects. Primary effects are shown as ✓ and secondary effects as (✓).

The columns correspond to the five phases of change:

- Analysis and planning;
- Communicating about the change;
- Gaining acceptance;
- Initial transition;
- Consolidation and follow-up.

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**Some practical first steps (2)**

| Activity  | Plan | Comm'n | Accept | Trans'n | Consol |
|---|------|--------|--------|---------|--------|
| 9 Develop a training program                            | (✓)  | (✓)    | ✓      | (✓)     | (✓)    |
| 10 Facilitate the initial implementation                |      | (✓)    | (✓)    | ✓       | (✓)    |
| 11 Integrate RM with planning processes                 | (✓)  | (✓)    | (✓)    |         | ✓      |
| 12 Develop support tools                                | (✓)  |        | (✓)    |         | ✓      |
| 13 Review implementation & address problems or barriers |      |        | (✓)    | (✓)     | ✓      |
| 14 Encourage open reporting                             |      |        | (✓)    |         | ✓      |
| 15 Establish a centre of excellence                     |      |        |        |         | ✓      |

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Adequate resourcing is essential. We have seen examples where risk management implementation has failed, despite good planning and intentions, due to a lack of resources and support.

These are only first steps. It is critical to build continuous improvement into the process, so the risk management activities in the organisation develop and become more sophisticated as the knowledge and experience base in the organisation expands.

## 5 Conclusions

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**Lessons**

- One-off applications of the risk management process are relatively easy
- Consistency is harder to achieve
- Long-lasting culture change is very difficult: it requires planning, special effort and time
- Culture is often a more powerful determinant of success than logic – the people make the difference
- You do not need to be an anthropologist, but it might help!

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Organisational culture and culture change should be considered in detail in the Context stage of the risk management process, particularly for a new implementation.

Things to think about:

- What is the dominant culture in your organisation?
- What are the main enablers and inhibitors for good risk management implementation and culture change in the organisation?
- How can I ensure my implementation plan takes account of the cultural aspects of the organisation in which I am working?

## 6 Appendix: Implementation Topics in the New Draft Risk Management Standard

Note that the following Appendix is provided for information only. It is based on material from the draft Australian and New Zealand Standard on Risk Management, AS/NZS 4360, which is still under review (and due for publication in 2004).

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**Elements from the new draft Standard**

1. Ensure the support of senior management
2. Develop the risk management policy
3. Communicate the policy
4. Establish accountability and authority
5. Customise the Risk Management process
6. Resourcing
7. Organisational Level Risk Management Plan
8. Manage risks at the area, project and team levels
9. Monitor and review

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**Ensure the support of senior management**

Develop an organisational risk management philosophy and awareness of 'risk' at senior management levels

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**Develop the risk management policy**

The organisation's executive should define and document its policy for managing risk, including the objectives for, and its commitment to, risk management. The risk management policy should be relevant to the organisation's strategic context and its goals, objectives and the nature of its business

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**Communicate the policy**

Develop, establish and implement an infrastructure and arrangements to ensure that managing risk becomes embedded into the planning, management and decision-making processes and the general culture of the organisation

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**Establish accountability and authority**

The Chief Executive (or equivalent) is ultimately responsible for managing risk in the organisation. Within an organisation, all personnel are responsible for managing risks in their areas of control

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**Customise the Risk Management process**

The process for managing risks will need to be tailored to suit the specific policies, procedures and culture of the organisation. Performance criteria should be specified for assessing the success of the risk management process

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**Resourcing**

The organisation should identify resource requirements and provide adequate resources, including training for personnel who apply the risk management process or who perform a role in supporting, monitoring and verifying it

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**Organisational Level Risk Management Plan**

Develop and establish a plan for managing risks at all appropriate organisational levels through the application of the risk management process

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**Manage risks at the area, project and team levels**

Develop and implement plans to embed risk management into each sub-organisational area, function or business process, program, project, or team activity through the application of the risk management process. Such plans should be consistent with, and may be part of, the organisational level plan. The process for managing risks should be embedded into all critical planning and management activities, particularly including those involved with the management of changes

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**Monitor and review**

Risks are not static and organisations should adopt and embed dynamic processes for managing risk. Develop and apply mechanisms to ensure the ongoing review of the risks and the risk treatment strategies the organisation has adopted

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## 7 Contact us for more information

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- Quantitative risk & financial modelling
- Risk assessment for private financing options
- Risk assessment workshop facilitation
- Risk management plans & implementation
- Risk management process review
- Risk management training

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**Further information**

Dale F Cooper: Applying Risk Management Techniques to Complex Procurement  
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John Wiley & Sons, Chichester, 1995, ISBN 0 471 93979 X

Dale F Cooper and Chris Chapman: Risk Analysis for Large Projects  
John Wiley & Sons, Chichester, 1987, ISBN 0 471 91247 6

Australian/New Zealand Standard on Risk Management, AS/NZS 4360  
Standards Australia, Standards New Zealand, 1999

**Please contact Dr Cooper for further information**

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