Rigs-To-Reefs:
*Risk Management Considerations*

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Agenda:

► Risk Management – the Basics
► Rigs-to-Reefs – Lessons from Project Risks
► Key consideration 1 – Form over substance (Reputational risks)
► Key consideration 2 – A study in Amber (Black Swans)
► Concluding remarks.
Risk Management – the Basics

“The art of war is not to make war”

“Victorious warriors win first and then go to war, while defeated warriors go to war first, then seek to win”

Sun Tzu
What is Risk?

Risk is the degree of **UNCERTAINTY** around an event occurring and the subsequent **IMPACT** on an organisation’s **ABILITY TO ACHIEVE** or **EXCEED ITS OBJECTIVES** if the event occurs or not.
The Risk equation

**Likelihood** of an event taking place

+ **Impact** on the organisation/ project

= **Outcome**: Strategic & Operational Objectives not achieved

…It is also about managing the opportunities
What is Risk Management?

Risk management means having in place a **SYSTEMATIC** process for **IDENTIFYING, EVALUATING** and **ADDRESSING** the **IMPACT** and **POSSIBILITY OF OCCURRENCE** of risks in a **COST EFFECTIVE** way.
What is Risk Management to an organisation?

Organisation’s **competency to manage uncertainty**, more effectively **minimising threats** and **maximising opportunity**.

*It is a Process…………*

- Effected by an entity’s stakeholders, management and other personnel;

- Applied in strategy setting and across the entity;

- Designed to systematically identify, evaluate and address the impact and possibility of occurrence of risks that may affect the entity; and to

- Provide reasonable assurance regarding the achievement of entity objectives.
Risk Management is to….

Keep You Out Of Trouble…….

► Catastrophic reputational consequences
► Stiffer sanctions
► Criminal indictments
► Regulatory requirements
► Growing number of restatements

Make Your Activities Better…

► Refocus strategy
► Improve Coordination and decision making
► Optimize controls
► Enhance Business processes and systems
► Reduce Cost

“Risks arise as much from the possibility that opportunities will not be realised, as it does from the possibility that threats will materialise or that errors will be made.”
Risk Management Considerations....

When we consider risks, we should consider the following:

**Are we taking the RIGHT risks?**
- How are the risks we take related to our strategies and objectives?
- Do the risks we take give us a competitive advantage?

**Are we taking the right AMOUNT of risk?**
- Are we getting a return that is consistent with our overall level of risk?
- Does our organisational culture promote or discourage the right level of risk taking activities?

**Do we have the right PROCESSES to manage risk?**
- Is our risk management process coordinated and consistent across the entire enterprise? Does everyone use the same definition of risk?
- Is our risk management process cost effective?
Risk Management Considerations....

► Risk Management vs. List Management

► Risks must be continuously adapted to meet changes in operating environment

► Structured risk management is essential
Elements of an RM Framework

- Enterprise Risk Management Oversight Structure
- Integration & alignment
- Risk Management Enabler
- System Implementation
- Program Management
- Change Management
- Common risk framework
- Linkage to stakeholder value
- Boardroom interface
- Enterprise risk management committee
Elements of an RM Framework

- Enterprise Risk Management Oversight Structure
  - Establish the Context
    - What is the framework for
    - What are the key concerns to be addressed
  - ISO 31000 Guidance.
  - Risk Assessment
    - Identify Risks
      - What can stop you for achieving objectives
      - Why can this happen
    - Analyse Risks
      - What causes the risks (root cause)
      - How likely it is to happen (likelihood)
      - How are you affected (impact)
  - Evaluate Risks
    - What are the existing controls to mitigate the risks
    - With these controls – is the risk acceptable?
  - Treat Risks
    - What additional actions need to be taken
    - Evaluate, select and implement actions

- Program Management

- Boardroom interface
- Enterprise risk management committee
How to determine what elements in your Risk Management Framework. Using Ernst & Young’s framework below as an example, the organisation basically needs to determine 3 aspects – The **Direction**, **People** and **Tools**.

- **Governance**: The top at the top and stakeholders’ expectations ultimately determine how the framework operates. This includes key aspects such as centralised versus decentralised, rules versus principles-based, high versus low risk appetite.

- **People**: This is dependent on resource and skill-availability. Some organisations prefer to develop in-house talent while others prefer to obtain ready-trained expertise or even consider outsourcing.

- **Infra & operations**: The main point is ‘fit for purpose’. Not every organisation needs web-based ERP toolkits. Spreadsheet-based monitoring and tracking is widely-used and works.
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“Roll rocks down a 10,000 ft. mountain and they cannot be stopped, this is because of the mountain, not the rocks…” - Sun Tzu
A lot of projects fail due to:

1. Poor communication between relevant parties.
2. Lack of planning of resources and activities.
3. Milestones not being met.
4. Absence of standards and quality control.
5. Cost escalation (getting out of hand).
6. Inadequate co-ordination of resources.

### Top 6 Reasons Why Projects Fail

- Bad communication between relevant parties: 26%
- Inadequate co-ordination of resources: 11%
- Costs getting out of hand: 13%
- No quality control: 15%
- Lack of planning of scheduling resources and activities: 17%
- Milestones not being met: 18%
Can you see the star?

Seeing the big picture is important in managing projects

But so is diving into the details
What are the critical elements in a Project

- ‘Systems Theory’ approach
- Regards projects as an ‘open’ system – i.e. a series of processes that interact/ are open to the environment.
- A project is a balance between time, cost and quality.
- Zero-sum game? Doing better in one is at the expanse of the other?

- A possibly ‘neglected’ aspect – the environment (i.e. PEST)
- Management’s aim is to keep the project within the ‘boundaries’ – the available time, money, stakeholder expectations and environment.
Some suggestions….

Few of the suggested methods to reduce the failure rate of projects are as follows:

- **Stakeholder Management and Buy-in**: Ensuring time to time review with the stakeholders on the project progress eliminates the possibility of any misunderstanding of expectations and prevent the complete project failure at the end.

- **Phased and silo approach for Big Projects**: Since bigger projects are more vulnerable to failure, dividing the projects into phases and silos thereby allocating resources accordingly makes the progress tracking much easier and prevent failures.

- **Improving Communication**: Effective communication is needed to discuss the problems with the project, handle conflicts within the team as well as with the stakeholders.

- **Resolving Problematic technical issues**: Technical issues like lack of technical expertise, undefined technical should be resolved as soon as possible by providing relevant training and defining project specific standards.

- **Redefining project if required**: Reducing the scope, re-justifying the project financially and operationally and reallocation of resources if required can be few measured to prevent failure of the projects.
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Reputational Risks

“Experience is a hard teacher because it gives the test first, the lesson afterwards…” – Vernon Sanders Law
Mercedes Benz A Class: The Moose Test

- Removed as this section contains confidential information
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“Calamity can happen anytime... when the generals are haughty and the soldiers are lazy, they forget there may be an unexpected turn of events...” - Sun Tzu
Disasters are not a Black Swan

► The events described are costly – but not expected to NEVER happen.
► We do not know when they will occur but know that they CAN occur – it may be a matter of time and location.
► And when they do occur, we also know what damage they can do.

So in Risk Management terminology:
► We do not know the LIKELIHOOD/PROBABILITY (save that it’s not zero)
► But we can ascertain the IMPACT

Taleb (2008, 2010) gives 3 characteristics of his Black Swan,
1. It is an outlier – outside the realm of regular expectations
2. It carries and extreme impact, and
3. Human nature makes us concoct explanations for its occurrence after the fact.
Disasters are obviously NOT outside the realm of human experience.
The key message is that while organisations cannot predict the occurrence of disasters, they can control the impact of it upon the organisation.

In essence, disasters sit along a continuum of risk events – all of which the organisation can control its reaction towards its occurrence:

- **Day to day operations**
- **Market forces, supply/demand**
- **Economic turmoil*/ new inventions**
- **Natural disasters, accidents**
- **Black Swan events**

*Economic turmoil (financial crises, market crashes) are a feature of any market and in many cases foreshadowed by some leading indicators*
Disasters (if recognised) tend to be classified under the low-likelihood/high impact end – e.g. the Amber risks as some of us call them:

However, what matters is not the ranking – or even how you rank it, it’s what you can do about it.
What can you do....

<table>
<thead>
<tr>
<th>Action</th>
<th>Remarks</th>
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<tbody>
<tr>
<td><strong>Business Continuity Plan/ Disaster Recovery</strong></td>
<td>• Fairly standard practice – or is it?</td>
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<tr>
<td></td>
<td>• Comprehensive and up-to-date?</td>
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<tr>
<td><strong>Insurance</strong></td>
<td>• Again fairly standard practice</td>
</tr>
<tr>
<td></td>
<td>• But – caveat emptor (buyer beware)</td>
</tr>
<tr>
<td><strong>Supply chain &amp; value chain</strong></td>
<td>• Beyond ‘just’ Business Continuity/ Disaster Recovery</td>
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<td></td>
<td>• Your organisation/ project does not exist in isolation – why should your planning …</td>
</tr>
<tr>
<td><strong>From JIT to JIC (Just-In-Case)</strong></td>
<td>• Lean isn’t necessarily ‘in’</td>
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<td></td>
<td>• So how much is enough?</td>
</tr>
<tr>
<td><strong>From special to normal</strong></td>
<td>• Built-in robustness</td>
</tr>
<tr>
<td></td>
<td>• Part of strategy and the way of doing things</td>
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Actions:

► The more complex the action, the more costly it is – but the better the potential pay-off.

► And also the more robust the organisation in dealing in even more uncertain events.
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"You cannot escape the responsibility for tomorrow by evading it today”
Abraham Lincoln
Concluding Remarks

► Plan for risks and deal with them systematically.
► Projects tend to flounder due to stakeholder issues – don’t just focus on the technical aspects!
► No matter how ‘right’ you are, perception matters – be aware of this and plan for it.
► Dismissing disasters or Black Swans means you’re leaving your fate to chance. It IS possible to manage disasters if you plan for them.
► In short…. Spend some time thinking before acting.
Thank You

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