Does My Bum Look Big in This? Sharing the Bad (and Good!) News in Risk Management

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Imagine the scenario: you and your partner are heading out for dinner, you're at the door, your cab is waiting, and one of you turns to the other and says, 'Does my bum look big in this?' Getting the answer wrong can seriously damage your health, but should this stop the answer being a truthful one? What if corrective action can be taken? What if it can't? Is it too late to be asking the pertinent questions?

This paper will explore the concept of bad (and good) news in risk management. In particular it will look at three issues: 1) what constitutes 'bad' and 'good' news in relation to risk; 2) the key components a project/ programme should have in place to ensure the communication of good and bad risk news; and 3) how to effectively communicate bad and good risk information. In addition, consideration will be given to how communicating risk information well, whether bad or good in nature, can impact the bottom line.

Issue 1 – The risk situation is changing

Risk is the effect of uncertainty on objectives[1], which means that they can be either positive opportunities (upside risk) or negative threats (downside risk). Risks can be considered to be 'bad news' if they are worse or more serious than was originally thought, resulting in a deterioration of the risk situation which ultimately has a larger than expected negative impact on project/ programme/ portfolio[2] objectives. The definition of 'bad news' will vary from organisation to organisation, however in general, examples of bad risk news may include:

- The risk is likely to eventuate;
- The risk impact or exposure has unexpectedly increased;
- Treatments may have failed to address the risk/s as expected;
- Costs associated with either the risk impact or treatment may have increased;
- Risks may have interacted in an unexpected way;
- A completely new risk which was not anticipated may be identified with significant consequences;
- The risk has not been reported in a timely manner leaving insufficient time to address it effectively;
- Ethical or illegal behaviour has been reported through whistleblowing channels; and/ or
- Opportunities have not been exploited as planned.

Alternatively, 'good news' risks may be defined as those where the outcome is likely to be better than expected, or which contain information about tangible opportunities for the project or programme to exploit. Communicating this information in a clear and timely manner is just as important as communicating the bad news, as it allows the project/ programme to capitalise on the benefits it has recognised such as costs or time that can be saved.

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[1] ISO31000:2009

[2] 'Portfolio' is defined as a group of programmes managed in a coordinated way to support business strategy.

One of the key reasons risk management exists is to provide accurate information on the threats and opportunities that exist in the project/ programme's quest to meet its objectives. Risk management therefore support informed decision making that can only be achieved if there is an effective and timely data flow throughout the organisation, and the passage of data that is both 'good' and 'bad' in nature. In order to do this however there need to be defined triggers that identify information as 'bad – worse than expected' or 'good – better than expected', and raise an alert in time for it to be managed, if necessary outside of the usual reporting process.

Risk information is most commonly escalated on the basis of two different triggers:

- Risk tolerance criteria e.g. risks rated as being above a certain threshold are escalated and reported at more senior levels in the project/ programme; and/ or
- Key risk and control indicators monitor changes in the risk environment and risks are then escalated if acceptable thresholds are exceeded or worrying trends are identified.

These approaches do however rely on a number of assumptions including:

1. Risks have been correctly articulated;
2. The programme's risk appetite and tolerance has been clearly defined and communicated so that risks are rated appropriately; and
3. There is some form of continuous holistic risk analysis and management that allows oversight and real time reporting of all significant risk which is supported by appropriate behaviours. This provides the opportunities for bad and good news risks to be quickly identified and escalated in a timely manner outside of the usual reporting process.

Quite frequently however these assumptions do not hold true. In these instances the 'wrong' risks may be escalated (i.e. those that do not require additional oversight), and/ or trivial risks are reported in detail, whilst the more serious ones are not communicated well or at all. As a result the risks that matter are not given the attention they need and deserve until it is too late –hence they become 'bad news'.

Those organisations that are using risk software to support their risk processes are more likely to be able to identify 'bad' and 'good' news risks in a timely fashion than those who do not. This is because modern risk systems provide functionality such as: the definition of key risk and control indicators to trigger alerts; analysis of risk interdependencies; and automatic email generation if, for example, risk exposures increase. This is not to say those organisations using word or excel to capture risk information are unable to accurately identify the bad and good news risks, it does however mean the task is likely to be more onerous and may not happen as frequently therefore increasing the chances of missing something or identifying risks too late to manage them in the most effective way.

Complete reliance should not however be placed solely on risk systems to identify bad and good news, there is no replacement for oversight by a risk professional as not all bad news risks are those with a high risk rating. It may be the very nature of the risk that poses the greatest threat and this may not trigger any type of alert. This highlights the importance of having risk professionals who also understand and are close to the project/ programme, as it allows them to make informed judgements about the data that needs escalating and reporting, when and to whom.

Issue 2 – Managing the fallout

Once the news has been identified – bad or good - the key element in distinguishing risk mature organisations from those which are not, is how the information is received and managed across the portfolio. There are two main components required to support the effective management of bad and good news, the first of which is risk culture.

Risk Culture

Risk culture is concerned with the behaviours, beliefs and values of individuals within the organisation as regards risk management. The Institute of Risk Management (IRM)'s Risk Culture Guidance states that "An effective risk culture is one that enables and rewards individuals and groups for taking the right risks in an informed manner"[3], and it is easy to see how this applies to good news risks. The principle does however also apply to bad news risks, and in particular to how management respond to receiving bad news. As the Guidance goes on to state; "A successful risk culture would include…Transparent and timely risk information flowing up and down the organisation with bad news rapidly communicated without fear of blame [and] encouragement of risk event reporting and whistle blowing, actively seeking to learn from mistakes and near misses". How well (or not) bad risk news is received is vital to setting a decisive tone as to whether risk management becomes associated with blame, or whether a culture of 'no surprises' prevails.

In order to move away from a "bad news = blame" culture it is vital that a strong positive example is set from those at the top of the organisation and of the programmes. In 2006 Alan Mulally took over as president and CEO of Ford. He found there was a culture of hiding bad news, with managers holding pre-meetings before board meetings where it was agreed how bad news should be managed. Mulally stopped this and insisted that the bad news should be communicated clearly and directly, even going so far as to clap and thank individuals personally for being open enough to deliver the bad news. As a result he saw an improvement in performance with greater transparency.

In addition to helping ensure that bad news in communicated effectively, having a mature and considered risk culture in place also has other performance benefits such as:

- Reducing the likelihood of costly last minute treatment actions;
- Reducing the likelihood of missed milestones and project delays due to unexpected or badly managed risks eventuating; and
- A positive impact on reputation. If stakeholders are aware of the project/ programme's approach to managing bad news, they should have confidence that they are less likely to receive unpleasant surprises, and therefore trust in the capability and performance of the project/ programme is increased.

There is a need for the executive and senior management to encourage this open and transparent culture of sharing risk information, in particular to allow individuals to raise bad news risks without fear of blame and reprisals, and to provide recognition for individuals who are doing their job in difficult circumstances and managing risks the best they can. As recommended by the IRM, a system of measurement and rewards and sanctions can be used to facilitate and encourage the reporting of

[3] Risk Culture Under the Microscope; Guidance for Boards. IRM 2012, p6

bad news – people behave as they are measured – and so the portfolio and programme approach to the management of bad news can be transformed from one of suppression and blame, to one of transparency and reward.

The Risk Governance Structure

The second component required to support the effective management of bad and good risk news is an effective risk governance structure. Having in place a robust system of risk governance helps with communicating risk intelligence, as there is a defined information flow and triggers in place to raise the alert on when data needs to be escalated. This helps ensure that the right information gets to the right people at the right time in the right format. Without a clear structure in place, it is easy for bad and good news to become lost, hidden, miscommunicated or reported to the 'wrong' place, i.e. a committee without the understanding or authority to action the risk correctly. The risk governance process acts as the umbrella over all the elements of communicating bad news: to whom, by whom, when and how, as well as how the information should be received.

The risk governance structure is underpinned by the assumption that the organisation's risk appetite and tolerance have been correctly defined. The IRM defines these[4] as being:

- Risk appetite – the amount of risk that an organisation is willing to seek or accept in pursuit of its long term objectives;
- Risk tolerance – the boundaries of risk taking outside of which the organisation is not prepared to venture in the pursuit of its long term objectives.

Having in place clearly articulated, communicated and understood risk appetite and tolerance criteria means that bad and good news risks should be escalated to the right people as part of the risk escalation and reporting processes. If however these boundaries are not well defined or understood, there is increased risk of resources being incorrectly prioritised and potentially wasted – so causing a further unforeseen financial impact.

Additionally, how well the information is received is just as important as how well the information is communicated. Challenging and questioning the risk information presented to them is a critical part of the oversight role of senior management, and failure to do so can mean that risk information – bad or good – is not fully understood resulting in poor decision making and financial loss.

Issue 3 – Communicating information effectively

Throughout history people have looked for ways to either disguise or tone down the impact of bad news. Recently, researchers using text-analysis software have even discovered a new literary device in the first book of the Bible which they have named the "Genesis death sandwich. [5] "This refers to the structure sandwiching bad news in between the good. In the case of Genesis, the slices of bread are themes of life, and the slimy meat in the middle is references to death. However this is a technique which we also use, perhaps more subconsciously than consciously, to cushion the blow of bad news. For example how many times have you used the following technique when calling in sick

[4] Risk Appetite and Tolerance Guidance Paper, IRM. 2011, p15

[5] Visualising structures in ancient texts. Musgrave & Rugg, 2012

to work: "The presentation and all the supporting information we need for the important meeting we have tomorrow is in the shared folder, I won't be at the meeting as I have flu, but the doctor says I should be fine for work on Monday." Or from a work perspective: "I am pleased to report that the new testing methods have improved our incident rates by 80% in the last six months. We had one fundamental machine failure that unfortunately resulted in the loss of five products, but on a positive note, the machine was scheduled for replacement during the next financial year and this event allowed us to advance this replacement which should have a further positive impact on the incident rates."

Following the financial crisis the amount and type of risk portfolios are subject to has changed dramatically. With the advent of new and increasing risks such as: access to project finance; changes in consumer habits; impact of social media; increased outsourcing to and establishing of new businesses in emerging markets; advancements in technology and cyber-crime; and increasing and changing regulatory requirements, projects and programmes are frequently incapable of effectively reporting such complexity through real time, unambiguous risk communications. In addition, the speed with which risk events take place and with which they spread both across the portfolio and media is an increasing concern, and one that traditional project risk management is generally inadequately equipped to cope with. As a result, executives are concerned that the risk information they are receiving is already outdated by the time it reaches them, and is not clearly or concisely outlining the risk exposures. Timing for delivery of the information is therefore critical.

In response to this the role of the risk professional is also adapting, and rather than disguising or toning down the bad news using techniques such as the 'Genesis Death Sandwich' the risk professional plays a leading role in tracking trends and emerging risks, and ensuring that key stakeholders in the business are aware of them and the potential consequences should these events occur. Tools such as Key Risk and Control Indicators are vital in monitoring real time changes to the environment in which the organisation is operating, and approaches such as scenario analysis are becoming increasingly popular. Although the risk professional is most often not responsible for the particular risks and management strategies themselves, they are responsible for ensuring that the relevant information is communicated to the programme management, and for establishing the processes that ensure this visibility of data. Outside of normal risk reporting processes, risk professionals therefore need to have methods in place to identify bad and good news in plenty of time to act on it, and have defined clear protocols concerning the best method for escalating and communicating such information.

Risk professionals need to ensure that the relevant stakeholders are aware of the good and bad news risks through a mixture of clear verbal and written communications. If the information needs to be communicated to a group of people or a committee, a key stakeholder involved in managing the risk should be involved in verbally communicating the news, particularly in the case of bad news where significant financial outlay may be needed to address the risk. Specifically the risk owner and any individuals responsible for risk treatment should be involved in discussions, and potentially the risk professional to facilitate the conversation.

However, in order for these discussions to function effectively, the risk needs to be correctly defined. All too frequently one word risks appear in risk registers such as 'Fire'. Taken in insolation the assumption may be that more fire prevention mechanisms are needed. However, if explored in more detail, it may be the case that the risk actually refers to potential business interruption caused by fire, and as such, the controls and treatments needed are of a very different nature. This illustrates the importance of clearly defining the risk so that it can be understood quickly and easily by a mix of stakeholders and the right actions can be defined, agreed and implemented in time to prevent a risk from becoming 'bad news'. Using simple techniques such as 'There is a risk that xxx because of yyy resulting in zzz' or 'if..then' statements can help ensure that no ambiguity remains in the risk description.

In addition, the method of communication is as important as the information itself – whether bad or good – and needs to be clear so that the message is unambiguous and supported by relevant factual data. For example, comprehensible tables of information that distil down the facts, and table and chart titles that communicate the intended messages such as 'Number of cyber risks at all time high' as opposed to 'Number of cyber risks recorded from 2010-13', should be used instead of complex spreadsheets. In addition, it should be made clear where the risk information originated and who has prepared it, whether or not personal views and biases have been included, and whether any particular 'spin' has been put on the message as all this impacts on the way the data is received and understood.

The breakdown in communication responsibilities can therefore be defined as:

Risk professionals:

- Bring together those who are involved with the risk and facilitate risk discussions. As a minimum the risk professional should be a party to discussions on significant risks and capture decisions taken.
- Facilitate the risk identification process together with subject matter experts as required to help ensure that as far as possible, all significant risks are correctly identified and articulated.
- Use relevant approaches to conduct 'horizon scanning' for emerging risks and trends, and understand the bigger risk picture i.e. are there any risk interdependencies that need to be considered, how does this specific risk fit with the programme's risk tolerance and strategy etc.
- Prepare reports for the head of programme and relevant stakeholders in a clear and concise manner so that key messages can be understood. This involves reporting information as opposed to regurgitating risk data – providing vast quantities of risk data masks the real risk information, and prevents decision makers from understanding the real risk picture.

Management:

- Constructively question and challenge the risk information provided to them so as to ensure they have a deep understanding of the risk;
- Support the identification and implementation of treatment actions; and
- Provide guidance and information as requested.

If the balance of responsibilities concerning clear communications can be effectively achieved, bottom line impacts include avoiding: unnecessary risk expenditure; penalties that may have otherwise been awarded for project overruns; and costs accrued over and above that agreed as part of a fixed price contract. In addition, cost savings or increases in project revenue may be recognised through the early exploitation of good news.

Conclusions - addressing the changing risk situation in the future

Beginning in 2011, the IRM's Innovation, Value Creation and Opportunity SIG speculated about what risk management would look like in 2020.[6]The group defined 'Seven Cs' crucial to the future of risk: catalyst; culture; change; creativity; confidence; communication; and commerciality. In the context of this discussion, 'Culture' is particularly important as it defines organisations in 2020 as having: "*a culture where employees proactively identify risks, openly communicate issues and receive support and encouragement from top management when doing so. Whistleblowing will be seen as beneficial and staff will be rewarded for their management of risk.* "

Working towards this ideal will no doubt take all of the seven years left until 2020 and most likely beyond for many organisations, however the occurrence of risks which have outcomes that are better or worse than expected are unlikely to go away and therefore need to be managed appropriately. Risk professionals can play a key role in influencing how well this is managed by:

- Ensuring that they have sufficient knowledge of the business to understand and effectively oversee risks and escalate them at the right time to the right person;
- Ensuring that supporting the oversight process are well defined triggers such as risk tolerance levels to score risks correctly and define the boundaries of risk acceptability, and metrics to monitor internal and external conditions;
- Facilitating a risk culture that encourages transparency and disclosure of bad news risks, and where risks is not associated with blame;
- Defining risk governance measures that are clear in defining oversight responsibilities and risk information flow across projects, programmes up to the portfolio level; and
- Ensuring the timing and format for the delivery of risk information is clearly defined, including bad and good news risks that need escalation and consideration outside of the standard risk reporting process.

For their part, the project, programme and portfolio management teams need to respond in a positive manner to the sharing of bad news, avoid the urge to allocate blame and implement reprisals and instead question and challenge in a constructive way to understand the risk. Good risk communication is not just honesty, but also understanding and trust. If a balance can be found, the project/ programme/ portfolio stands to benefit from a stronger reputation, improved financial performance and from committed, ethical employees who report risks in a spirit of transparency and integrity.

So the next time you have to tell someone that that "yes, your bum does looks big in that", remember that although never welcome news, it is more likely to be well received where there is time to address the issue before public exposure. Although there may be some short term fallout, in the longer term the sharing of truth is more likely to develop an open and honest relationship where bad news is taken seriously and without reprisal, rather than treated with antagonism and blame.

[6] http://risk2020.org/