

How Successful Leaders Balance Risk and Opportunity

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I will touch upon four things

- **Risk management in a context**
- **Traditional approach**
 - Focus
 - Methodology
 - Weaknesses
- **Recommended approach**
 - Focus
 - Methodology
 - Challenges
- **Three real life examples**
- **Closing**



Risk Management in a Context

- **First step of Risk Management is to establish the context in which to do it**
 - Strategy
 - Initiative
 - Budget
 - Investment
 - Projecttoo often, this step is overlooked
- **There is ALWAYS some performance model**
 - Budget
 - ... Planwhich includes an approach and some targets to meet
- **Make sure you have performance, cost and time targets**

The Traditional Approach

- **Management discuss and decide on targets**
 - Performance
 - Costs
 - Timeframe
- **Project team prepares specific plan**
 - Scheduling
 - Costs
 - Deliverablesdesigned to meet the defined targets
- **Project team specify uncertainties, risks and levers**
 - Define and assess impact range and likelihood
 - Add to performance/project model
 - Simulate and adjust/iterate plan to meet targets



Target setting is based on “sandy ground”

- **Management discuss and decide on targets**
 - Performance
 - Implementation costs
 - Timeframe
- **Let us face it, Management are “guessing”**
 - They do have experience and insights
 - Defined targets are results of a political discussion
 - They will be hitting some target quite well, often
 - They will fail sometimes on some targets
- **Cultural aspect**
 - Many are praised and promoted for doing what you are told
 - As a Dane, I am praised and promoted for challenging and going beyond what I am told



Potential scenarios

- **Mission Impossible**
 - Your planning and risk management shows the likelihood of meeting targets is extremely low
 - Do you speak up now, or soldier on and hope for the best?
- **Walk in the park**
 - Your planning and risk management shows a high likelihood you will significantly outperform targets
 - Do you speak up now, or implement and cash in on performance bonuses and praise
- **Target misalignment**
 - Performance target is OK (reasonable likelihood of meeting this)
 - Cost target is a walk in the park
 - Time target is mission impossible
 - Do you speak up now, or do you try to balance and make do with what you have
- **Do you focus on what you are told to do – or on creating as much value as possible**

The recommended approach adjusts targets

- **Management discuss and decide on DRAFT targets**
 - Performance, costs and timeframe
 - **Project team prepares specific plan**
 - Scheduling, costs and deliverables
- ... plus ...
- Leverage insights and network
 - Add uncertainties, risks and levers
 - Simulate and optimise the outcome
 - Propose revised targets:
 - Performance
 - Costs
 - Timeframe
 - Discuss with Management on risk tolerance and “final” target setting

This is where the team add value

**... even before beginning
implementing the project**

Changing targets is not done without challenges

- **Managerial target setting is a political process**
 - Multiple aspects taken into consideration
 - Team effort to reach a good compromise
 - May have been hard to come by
- **Changing changes disrupt**
 - May enforce a complete re-do of the political discussion
 - May be advantageous for some executives and detrimental for others
 - ... we are potentially opening a can of worms
- **Be prepared to change approach slowly**
 - “Pilot” to demonstrate better and more trustworthy results
 - Avoid “last minute surprises” for anyone
 - Collaborate closely with ALL members of deciding management team
 - Be tenacious



Example 1 – Change of technological approach

- **Background**
 - Change of manufacturing methodology to leverage new technology
 - Expected/targeted to enhance productivity and cost structure
 - Involved massive investments over several years to implement
- **Project Change**
 - Decided technology was demonstrated to invoke unacceptable operational risks
 - Approach based on more traditional technology recommended
 - More “known” investments, shorter implementation time and higher operational stability
- **Value added**
 - Without risk management, millions would have been spent on the new technology – in vain
 - Project team were asked to define new plan, cost and timing
 - Revised project approved and deployed
 - Original productivity and cost structure targets were 90% met

Example 2 – Change of performance target

- **Background**
 - Offshoring of administrative process
 - Expected/targeted to significantly reduce costs
- **Project Change**
 - Risk management demonstrated cost of capacity shortage
 - Focus on capacity agility rather than cost savings was recommended
 - Offshoring still “on”, but now with different perspective and approach
- **Value added**
 - Without risk management, millions would have been lost on inadequate capacity
 - Project team defined new plan, cost and timing
 - Revised project approved and deployed
 - New capacity target met, and original cost target exceeded (despite not being key focus)

Example 3 – Change of timing

- **Background**
 - Launch of new product range
 - Expected/targeted to significantly enhance revenue
- **Project Change**
 - Risk management demonstrated decided launch date was unrealistic and that marketing/sales plan was unambitious
 - Revised launch date and launch plan was recommended
- **Value added**
 - Without risk management the launch would have failed (with 92% certainty)
 - Project team defined new launch plan, cost and timing
 - Revised project approved and deployed
 - Project costs and timing were increased – but new launch was more successful
 - The original 4-year NPV target exceeded by a factor of 2.4

Closing: Leverage risk management as value adding

- **“Risk is the effect of uncertainties on objectives”**
 - Well – risks affect performance rather than objectives
- **“Risk management must affect decision making”**
 - You will not get/have a seat at the table – then how?
- **Leverage risk management to adjust targets/objectives**
 - Challenge the targets you are given
 - Leverage insights and risk management
 - Focus on adding value beyond what you are requested to do
 - Be prepared to challenge a political process

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 - Focus on adding value beyond what you are requested to do
 - Be prepared to challenge a political process
- **It will take courage, time and effort**
- **Become the trusted business partner and “go to” person for Management**



About Me

- **M. Sc. Engineering**
- **35 years of LEGO Group experience**
 - Including 10 years as head of Strategic Risk Management
 - Winner of multiple international awards
- **6 years of independent consulting/training**
 - AKTUS, based on Intelligent Risk Taking
 - Two books plus numerous articles and conference speeches
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Thank You

What will you do ... NOW