

Risk and Opportunity Management - Experiences and Lessons Learned – *a personal insight*



Hubert Basler (ECATA 2002)

12th ECALAS Follow-up Seminar Madrid

22./23.10.2009

This presentation is not a lecture!





Risk: This presentation might be so boring that I fall asleep.

- Probability?
- What to do?
 - **accept / take the risk**
A fallback is needed! Ask your neighbour to wake you up in case it occurs.
 - **mitigate**
Have some coffee before.
 - **transfer**
Send someone else here to listen and get a debrief afterwards.
However you miss the **opportunity** to listen to a brilliant presentation and learn for you and your companies' benefit.

Agenda

- EADS / DS / Military Air Systems
- Divisional approach
- Risk and Opportunity Introduction
- Lessons Learned
- Key Success Factors

Agenda

- EADS / DS / Military Air Systems
- Divisional approach
- Risk and Opportunity Introduction
- Lessons Learned
- Key Success Factors



Agenda

- EADS / DS / Military Air Systems
- Divisional approach
- Risk and Opportunity Introduction
- Lessons Learned
- Key Success Factors



The R&OM Engagement Programme establishes the framework and competencies for improving R&OM

Engagement 1

Define the framework for applying R&OM



Make improvement of R&OM performance a leadership task

300 MAS Management delegates participated

Engagement 2

Implement actions for improving our R&OM performance

500 MAS employees will participate

Engagement 3

Increase our R&OM quality and skills

Why are we here today?

- Efficient and effective Risk & Opportunity Management (R&OM) is crucial for delivering our contracted projects on time, quality and costs
- We need to strengthen our capability of identifying and capturing more opportunities
 - within our existing projects
 - to ensure future business
- R&OM is not a 'nice to have', it is a competitive requirement to be leader in our industry
- The MAS Board and we as Management are committed to making R&OM an integral part of our operating mode
- Through pro-active R&OM we will be better equipped to manage the value currently at stake in our BU

R&OM is not a task of experts, it's the responsibility of all of us!

Our current approach to R&OM

“Better to avoid a risk than manage your way out.”

“We identify the risks, but don’t mention them in our proposals.”

“Contingency is seen as margin element & short-term financial contribution.”

“If applied professionally, R&OM is the key to success.”

“An opportunity is more of a gut-feeling worth following-up.”

“Once opportunities are identified, we don’t do anything special to make them happen.”

“People like reporting risks, as it shifts the responsibility away from them.”

“Reporting risks is dangerous. You become the centre of attention and your risk grows.”

- Sources:
1. 46 interviews on R&OM across DS
 2. Feedback from 90 participants of R&OM workshops

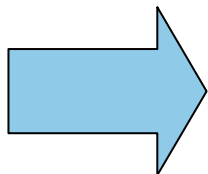
Management at MCM discussed how to improve the R&OM culture in MAS

In MAS, we need to **STOP...**

- killing the messenger
- hiding risks
- communicating risks as failure
- using risk provision for increase of EBIT

In MAS, we need to **START...**

- cross-functional communication
- open and honest reporting
- take ownership for risks
- reward opportunities
- providing resources for R&OM



Today, it is our opportunity to improve our project performance through applying pro-active R&OM



Uncertainty that matters

How to make Risk & Opportunity Management (R&OM) an integral part of our operating mode

R&OM principles for MAS

1 Team effort

Pro-active R&OM is a continuous team effort within and across all functions along the entire Project Lifecycle.

2 Transparency

I provide a realistic and honest view on the R&OM status of my projects.

3 Responsibility

R&OM is a personal responsibility and duty of everybody in MAS.

Why was this principle chosen?

R&OM is a team task and needs to be applied along the entire Project Lifecycle. This will mean in the future, to start R&OM systematically during the Bid phase and perform it until project closure. For this we use the diversity and competency of all functions.

For all risks and opportunities that are identified, it is expected to honestly and realistically report about them to the appropriate level. The Board is committed to stop the attitude of 'killing the messenger' and interpreting severe risk messages as bad performance.

Identifying and communicating risks and opportunities is a duty of everybody in MAS. This includes forwarding the relevant information to the responsible function, where response activities are to be performed.

4 Opportunity management

I focus on opportunity management throughout the Project Lifecycle (e.g. through applying re-usable engineering and claim management).

We need to focus on the systematic identification and capturing of project opportunities in order to compensate for risk impacts and improving project results.

5 Pro-activeness

I identify and communicate risks and opportunities as early as possible.

It is crucial to identify and communicate about risks and opportunities as early as possible, using different perspectives and early warning signs. Time counts when it comes to responding to risks and opportunities!

6 Ownership

I request the person, who owns the risk, to assume full responsibility and manage the risk most effectively.

For an identified risk or opportunity, the designated owner is fully accountable for managing it. The most effective person to address the risk/opportunity might be someone else. However, this does not shift ownership of managing the uncertain situation.

7 Acknowledgement

I recognise, promote and reward people who successfully take and manage risks and opportunities.

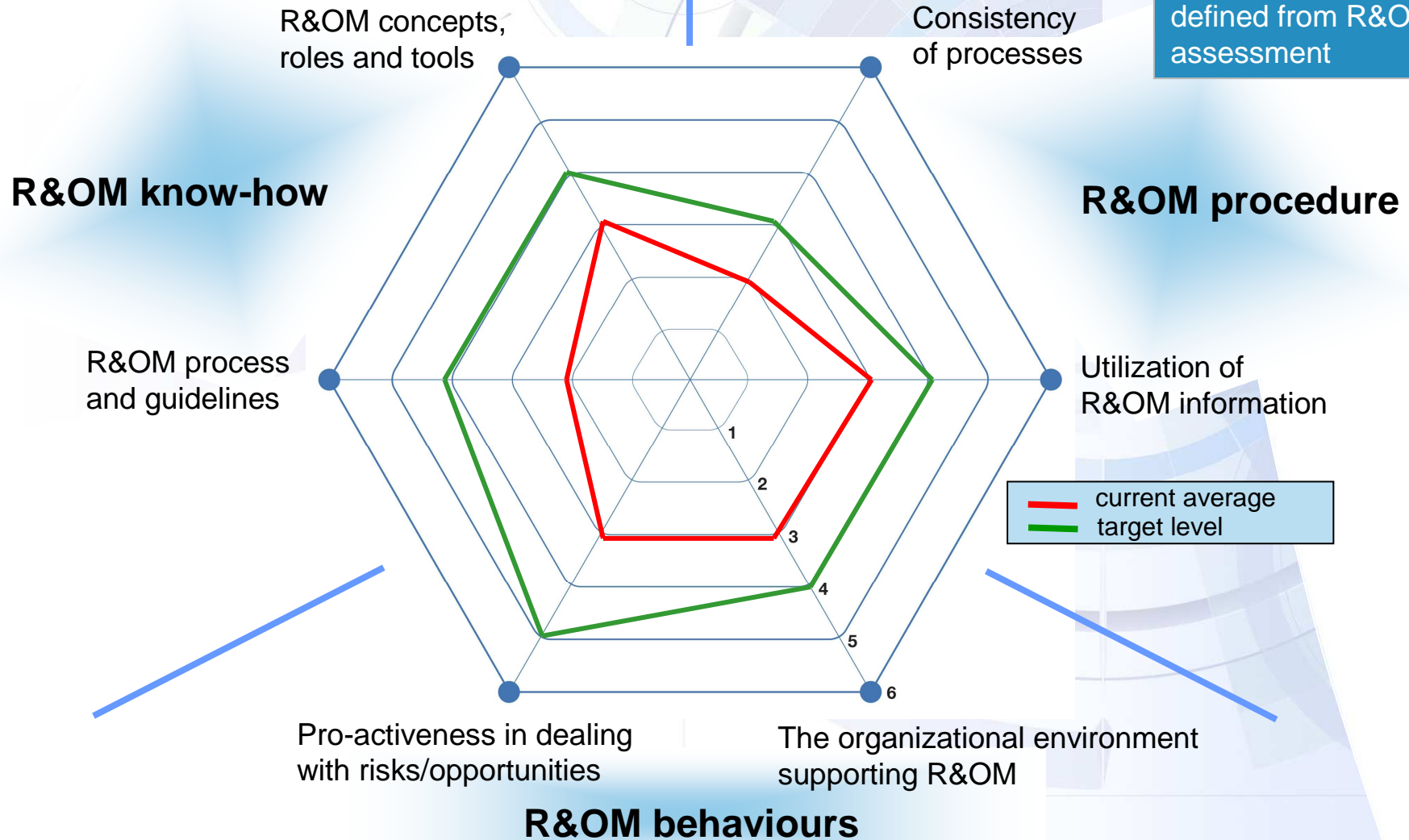
Only through acknowledgement we encourage our people to actively manage risks and opportunities, and not only to report them.

Three levers for significantly improving our R&OM performance in MAS

1. **R&OM know-how**
Enhance MAS' R&OM capabilities and establish R&OM best practices
2. **R&OM procedure**
Continuously improve the R&OM processes and toolkit
3. **R&OM behaviours**
Establish a culture of effective and efficient R&OM triggered by an open dialog between all levels of the organization

Aggregated average from assessing the R&OM performance in our area of work

Improvement scope defined from R&OM assessment



In addition, we will invest in enhancing our R&OM skills and competencies

Engagement 1

Define the framework for applying R&OM

Engagement 2

Implement actions for improving our R&OM performance

Engagement 3

Increase our R&OM quality and skills

R&OM simulation workshop

In a fictitious EADS DS-like project, participants will...

- ...kick-off the R&OM process in the bid phase and perform it throughout the entire project lifecycle
- ...identify, assess risks and opportunities, plan response strategies and report
- ...step in the shoes of different functions, such as sales, finance, procurement, project manager
- ...see the direct impact of their R&OM decisions on project performance



Agenda

- EADS / DS / Military Air Systems
- Divisional approach
- Risk and Opportunity Introduction
- Lessons Learned
- Key Success Factors

Risk Definitions (1/2)

A venture related to any activity. (*Duden*)

„It is likely that something unlikely happens.“ (*Aristoteles*)

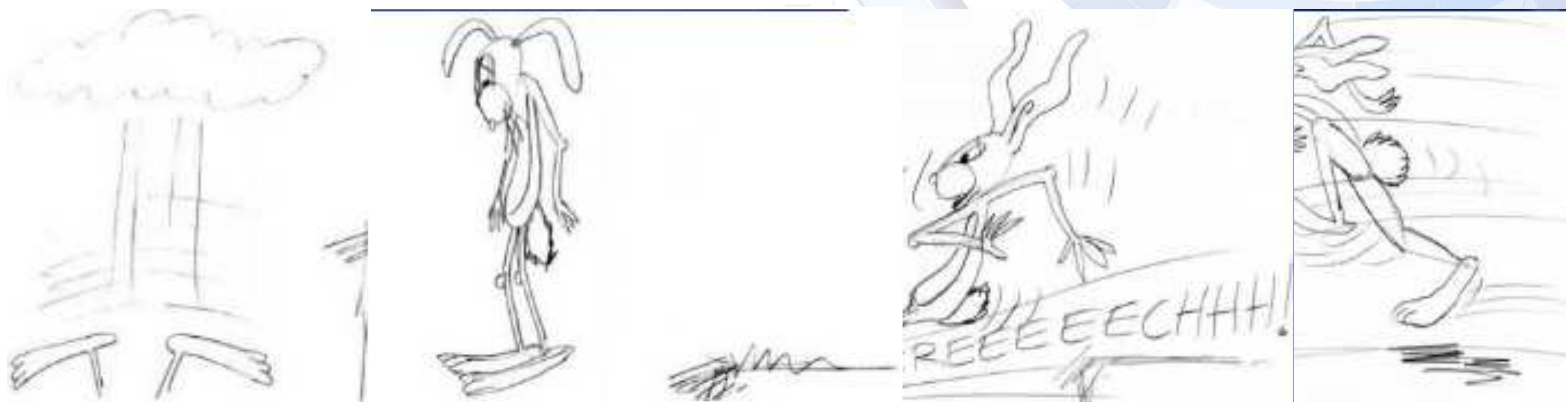
“Nothing ventured nothing gained. Unless one loses.”
(*International Fonds Selection*)

The Management must apply appropriate measures in order to avoid dangerous progress against welfare.
(§91 Aktiengesetz)

The quantifiable likelihood of loss.

Risk Definitions (2/2)

„People’s perception of risk is like in a cartoon, where the character falls, after considering their problematic situation of being abandoned in midair.” (Prof. Renn, Vorsitz Technikfolgenabschätzung, B-W)

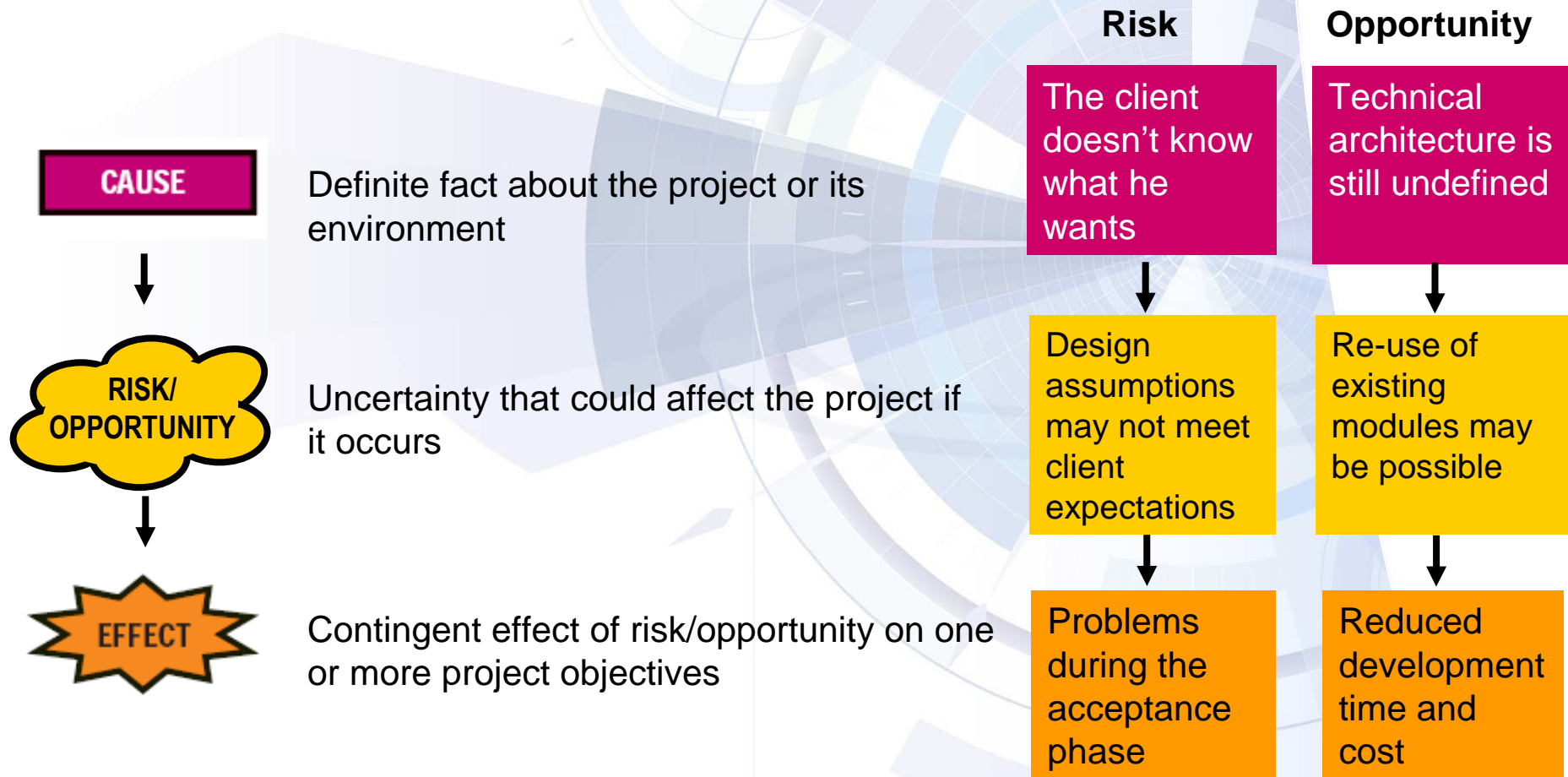


Definition of risks & opportunities

An uncertain event or condition that, if it occurs, has a positive or negative effect on at least one (project) objective.

Probability 1 - 99%

Uncertainties have a cause and an effect



R&OM is a continuous process along the Project Lifecycle

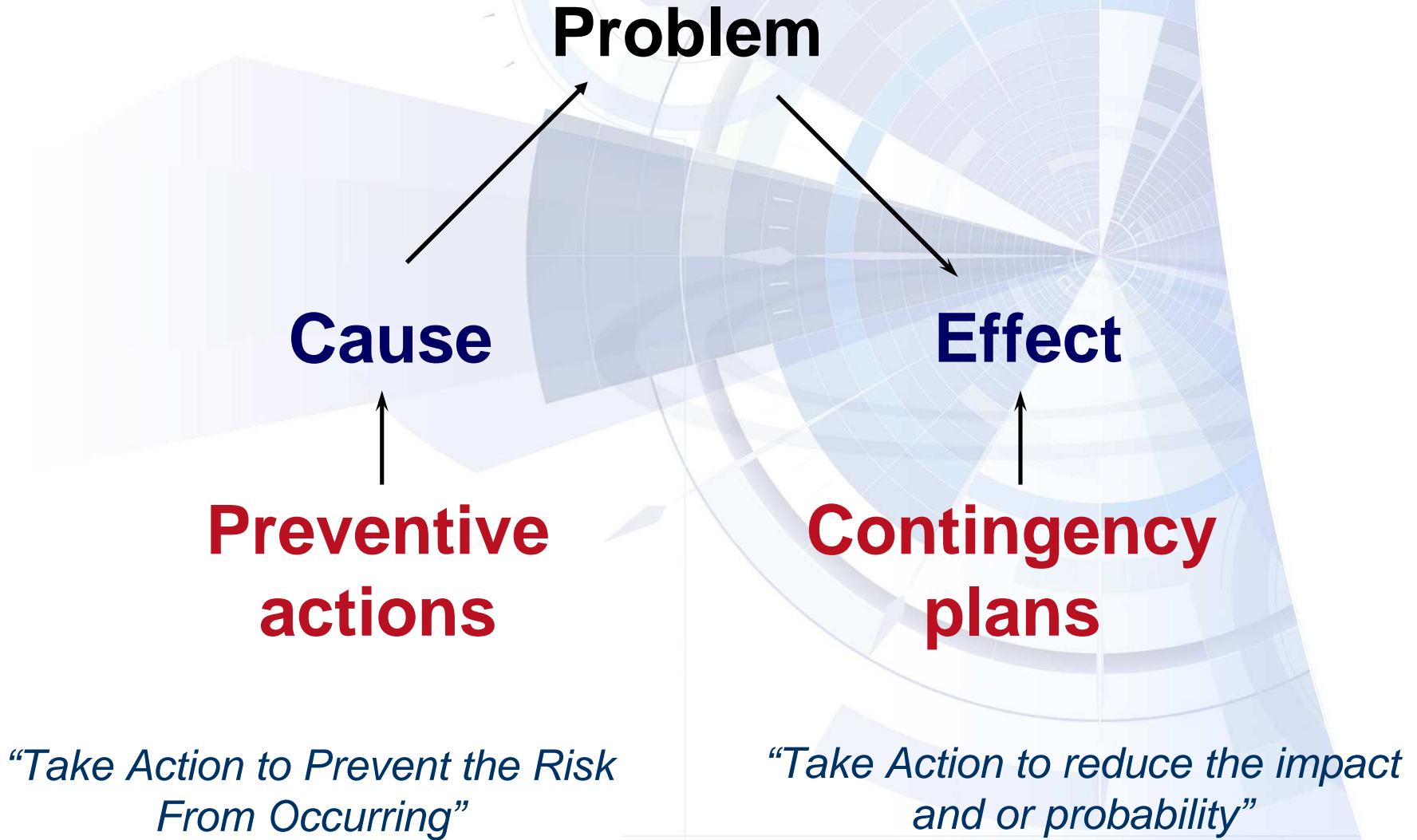


Including obligated R&OM assessments at all Quality Gates

Qualitative Risk Severity Analysis

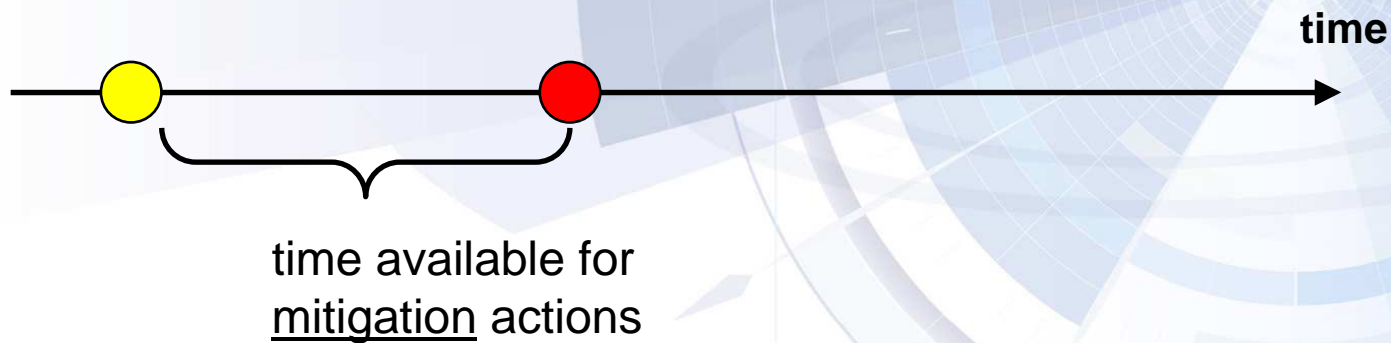
		Impact – (Select Highest Score)			
		Low	Medium	High	Very High
Likelihood	Very High (75 - 100%)	Yellow	Red	Red	Red
	High (50 - 74%)	Green	Yellow	Red	Red
	Medium (25 - 49%)	Green	Yellow	Red	Red
	Low (0 - 25%)	Green	Green	Yellow	Red

Develop Mitigation Plans



Main Characteristic of a Risk

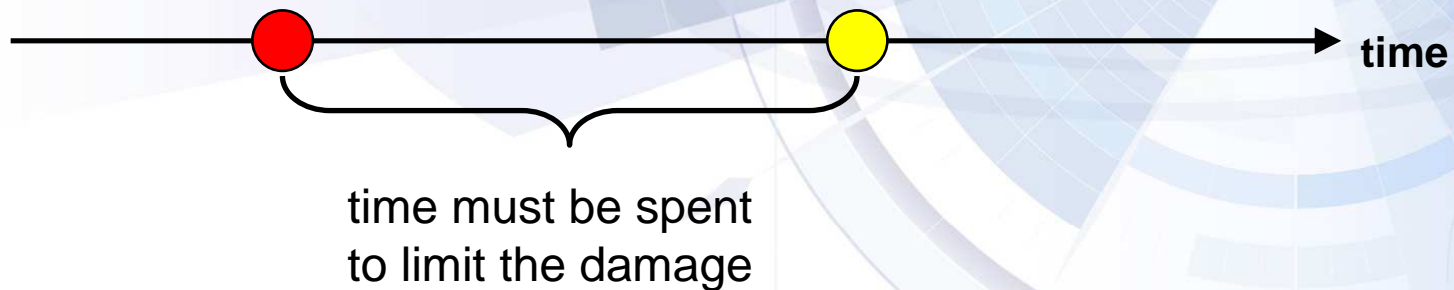
A risk is a possible event
in the future



- TN
- Possible Risk Starting Point

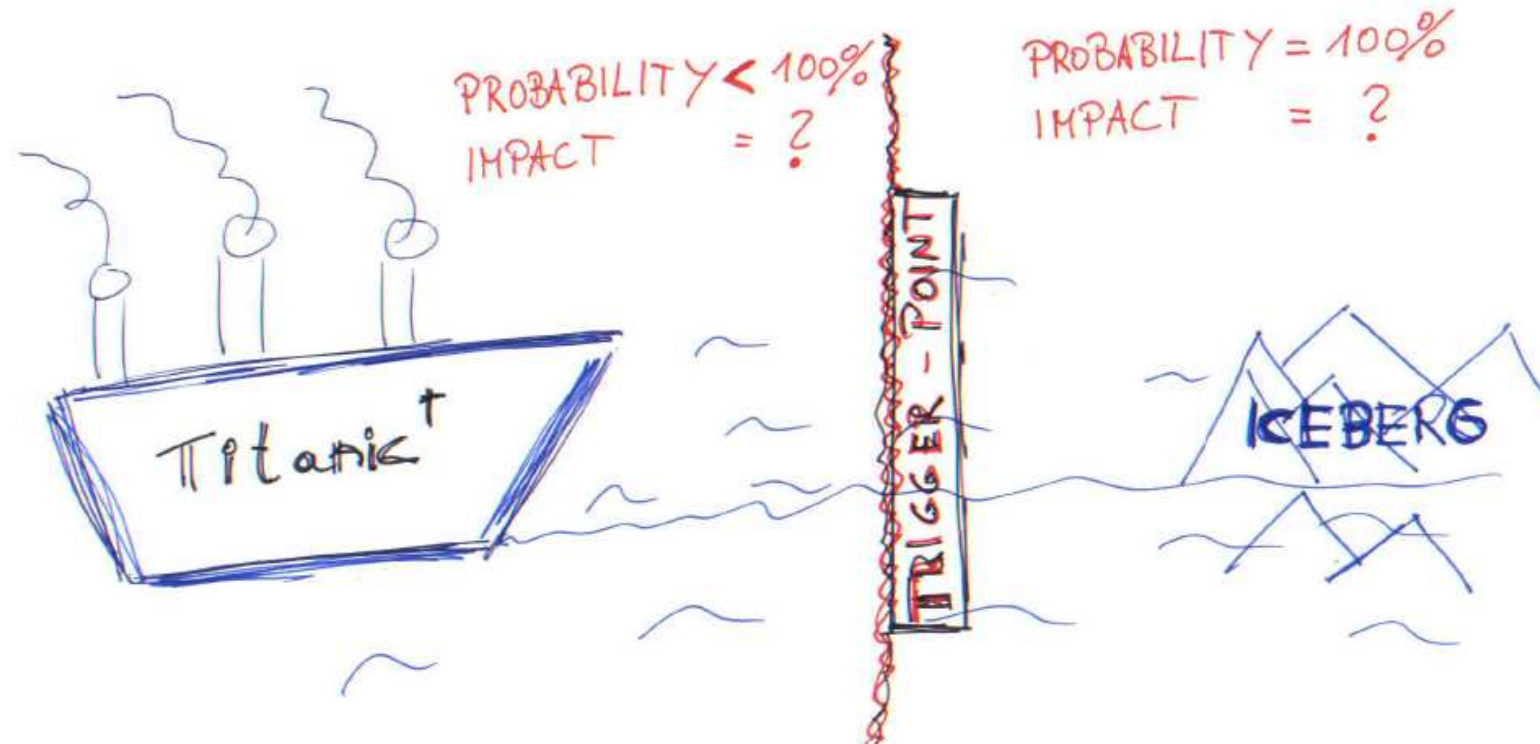
Issue vs. Risk

A risk, that has become reality is an issue



- TN
- Risk Starting Point

Issue vs. Risk



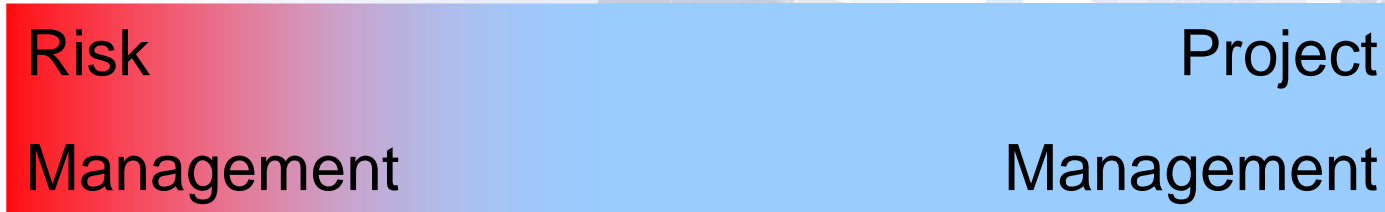
Agenda

- EADS / DS / Military Air Systems
- Divisional approach
- Risk and Opportunity Introduction
- Lessons Learned
- Key Success Factors

Lessons Learned

- lack of knowledge on ROM leads to unclear behaviour and waste of effort
- issue and problem solving is our daily business
- we too often only focus on technical risks and issues and miss programme / commercial risks
- effective ROM needs investment in resources; it needs time and priority
- process driver is needed
- risk communication is difficult
- ROM needs to be adapted to the project
- ROM can add value to the project
- commitment to ROM is not enough, you need to live it
- ROM is always lower prioritized than the urgent but not always important issues
- opportunity management is wide behind risk management
- budget constraints hamper the ideal process
- a tool alone will not make your process running

Risk vs. Project Management



Monitoring & Control as a daily management activity, based on expectations for the future

Monitoring & Control as a daily management activity, based on planning

- TN
- Possible Risk Starting Point

Agenda

- EADS / DS / Military Air Systems
- Divisional approach
- Risk and Opportunity Introduction
- Lessons Learned
- Key Success Factors

Key success factors

Leadership

Process defined and communicated

Tool and training

Team installed / resources allocated

Mindset

Focus on added value

Budget Management

Quick Wins and Success Stories

Trust

Clear responsibilities and objectives

Risk: This presentation might be so boring that I fall asleep.

- Probability?

Have you chosen the right response action?

- **accept / take the risk**

A fallback is needed! Ask your neighbour to wake you up in case it occurs.

- **mitigate**

Have some coffee before.

- **transfer**

Send someone else here to listen and get a debrief afterwards.

However you miss the **opportunity** to listen to a brilliant presentation and learn for you and your companies' benefit.

Military Air Systems

Thank you! Any questions?

