

Portfolio governance and risk – it's all about the stakeholder



Project Zone Congress

Innovation, Speed, Execution Excellence

Portfolio governance and risk – it's all about the stakeholder

Patrick Weaver
Mosaic Project Services Pty Ltd
www.mosaicprojects.com.au

www.projectzonecongress.com



Project Zone Congress

Innovation, Speed, Execution Excellence

Outline

- Risk
 - Project Risk (individual risks in the 'risk register')
 - The overall risk of a project
 - A portfolio of risks (the balancing effect)
- Governance
 - Determines optimum risk
- Portfolio management
 - Optimises risk

www.projectzonecongress.com

Portfolio governance and risk

– it's all about the stakeholder

 Project Zone Congress Innovation, Speed, Execution Excellence

Risk

- Risk is a perception – not a fact!



People decide on what is an 'acceptable' risk



www.projectzonecongress.com

 Project Zone Congress Innovation, Speed, Execution Excellence

Characteristics of Risk

- Risks are uncertain
- Uncertainty may be positive or negative or both
- The uncertainty **matters** and may have an effect:
 - Financial
 - Reputational
 - Safety of people, etc.

www.projectzonecongress.com

Portfolio governance and risk – it's all about the stakeholder

Project Zone Congress
Innovation, Speed, Execution Excellence

Characteristics of Risk

- What level of risk matters?

Risk Rating Matrix

Impact	Likelihood				
	Rare	Unlikely	Possible	Likely	Almost certain
Catastrophic	moderate	moderate	high	critical	critical
Major	low	moderate	moderate	high	critical
Moderate	low	moderate	moderate	moderate	high
Minor	very low	low	moderate	moderate	moderate
Insignificant	very low	very low	low	low	moderate

www.projectzonecongress.com

Project Zone Congress
Innovation, Speed, Execution Excellence

Project Risks

- Risks in the risk register

For more on types of risk see: https://www.mosaicprojects.com.au/WhitePapers/WP1057_Types_of_Risk.pdf

www.projectzonecongress.com



Portfolio governance and risk – it's all about the stakeholder


Project Zone Congress
Innovation, Speed, Execution Excellence

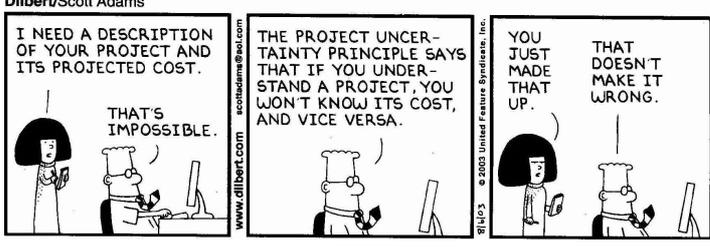
The Risk of the Project

- The risk the project poses to the organisation

Its bigger than the sum of the project risks



Dilbert/Scott Adams



www.projectzonecongress.com


Project Zone Congress
Innovation, Speed, Execution Excellence

The Risk of the Project











www.projectzonecongress.com



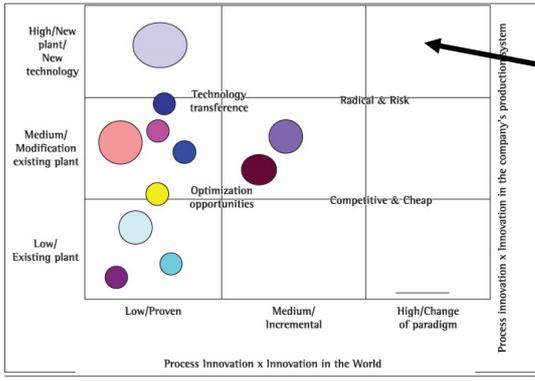
Portfolio governance and risk

– it's all about the stakeholder


Project Zone Congress
Innovation, Speed, Execution Excellence

A Portfolio of Risks

- The overall investment risk of all projects



← This organisation is planning to NOT have a future

A properly diversified portfolio will dramatically reduce the overall risk exposure!

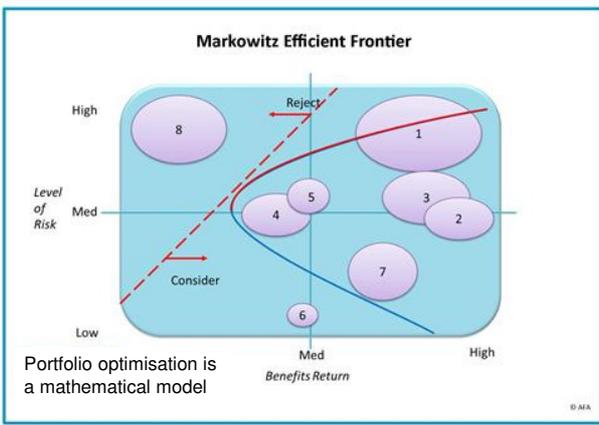
For more on portfolio risk see: <https://mosaicprojects.wordpress.com/2012/07/08/averaging-the-power-of-portfolios>

www.projectzonecongress.com


Project Zone Congress
Innovation, Speed, Execution Excellence

A Portfolio of Risks

- Portfolios require diversification to be effective



Portfolio optimisation is a mathematical model

See: *The Flaw of Averages* by Sam Savage: <http://flawofaverages.com/>

www.projectzonecongress.com



Portfolio governance and risk

– it's all about the stakeholder



Project Zone Congress

Innovation, Speed, Execution Excellence

A Portfolio of Risks

- The two key parameters:
- **Risk threshold** – What is an unacceptable individual risk
- **Risk tolerance** – How much risk in total is it sensible for the organisation to bare?
- Remembering: **no risk = no reward = no future**

www.projectzonecongress.com



Project Zone Congress

Innovation, Speed, Execution Excellence

A Portfolio of Risks

- The three keys to portfolio success
- The governing body must:
 - Think of projects as an investment (not a cost)
 - Seek diversification
 - High risk & reward + low risk and reward
 - Long term + short term
 - Actively manage their strategy and the investments to implement the strategy (good governance)

www.projectzonecongress.com

Portfolio governance and risk

– it's all about the stakeholder

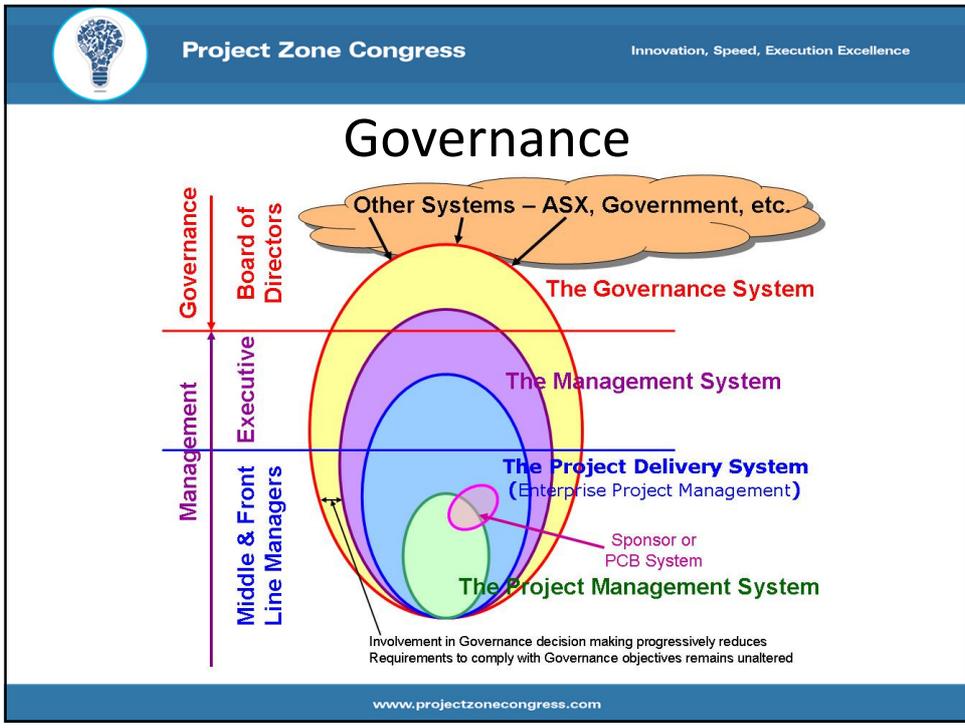
 **Project Zone Congress** Innovation, Speed, Execution Excellence

Governance

- *The system by which entities are directed and controlled*
- The governing body = board or individual
 - Responsible for governing
- The governing body:
 - Represents the interests of the organization's 'owners'
 - Establishes and maintains the governance system

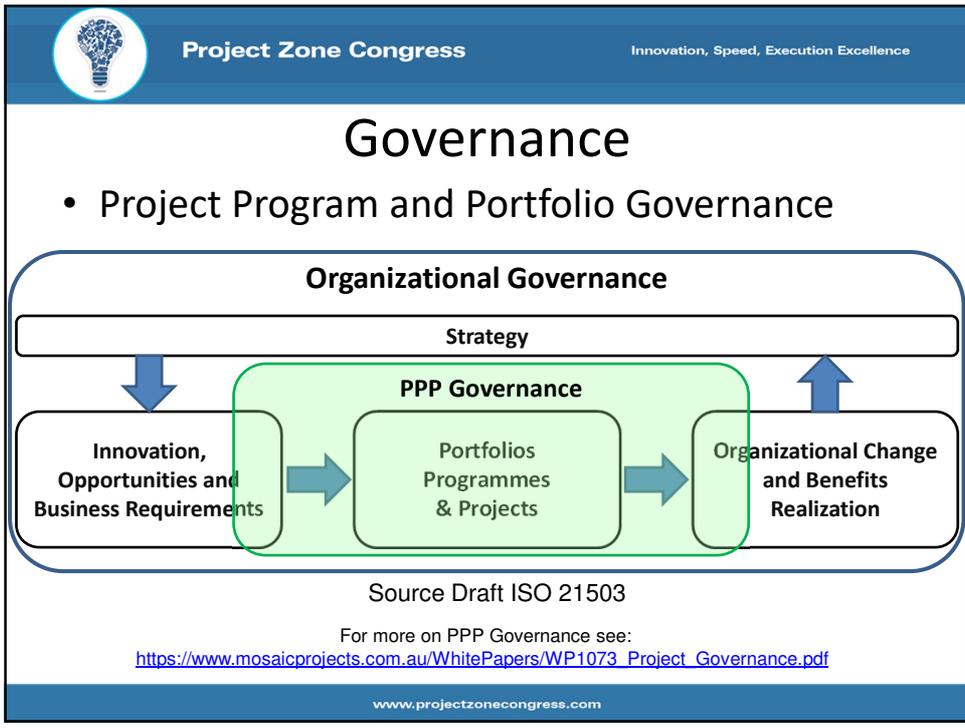
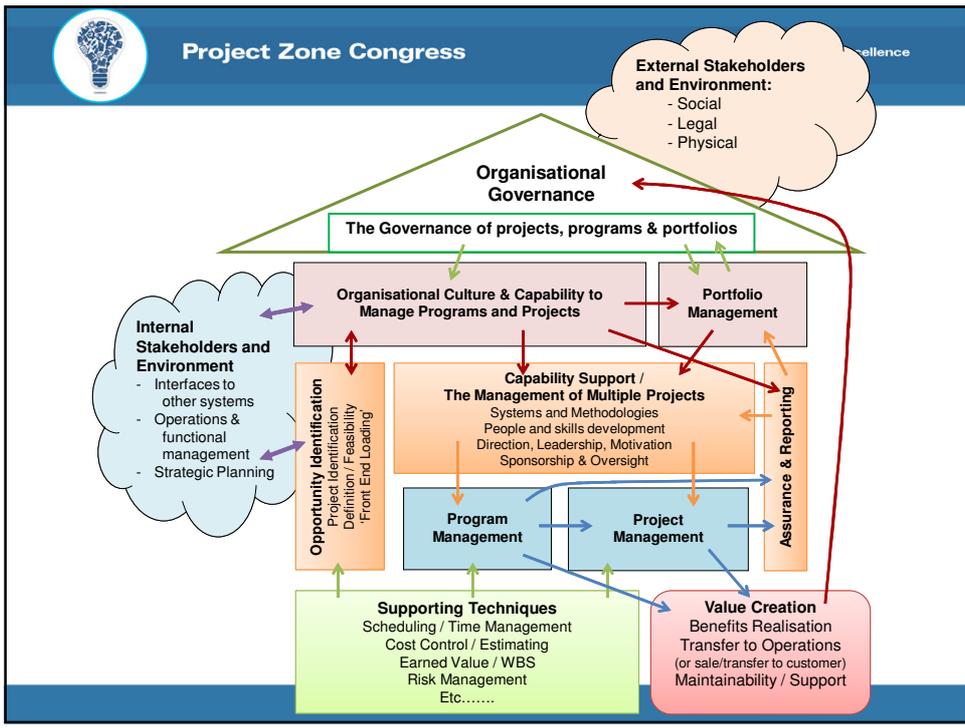
For more on governance see:
https://www.mosaicprojects.com.au/WhitePapers/WP1084_Governance_Systems.pdf

www.projectzonecongress.com



Portfolio governance and risk

– it's all about the stakeholder



Portfolio governance and risk

– it's all about the stakeholder

Project Zone Congress
Innovation, Speed, Execution Excellence

Governance

- Portfolio Management = **Selection for investment**

And de-selecting projects and programs that are no longer viable!

For more on portfolio management see: https://www.mosaicprojects.com.au/WhitePapers/WP1017_Portfolios.pdf

www.projectzonecongress.com

Project Zone Congress
Innovation, Speed, Execution Excellence

Governance

- Portfolio Management = **Selection**

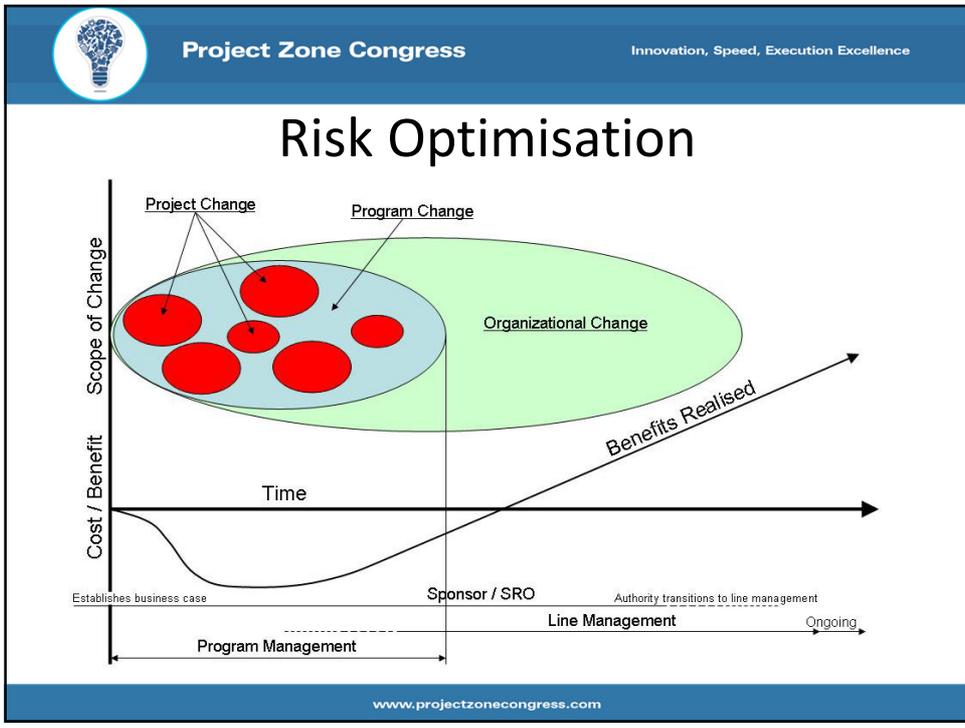
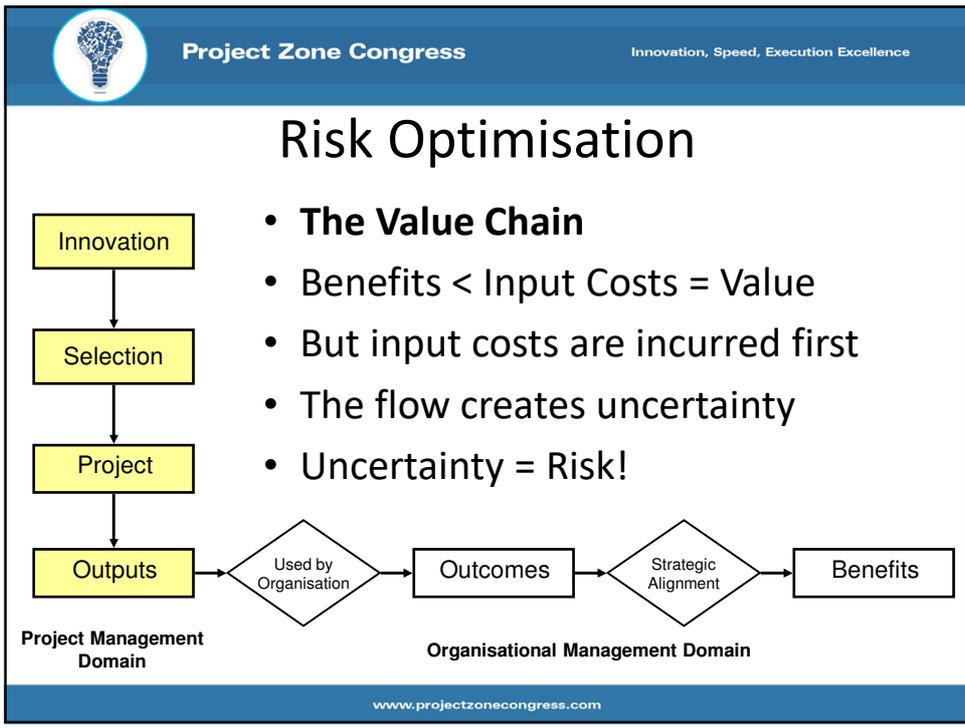
Portfolio Management
A selection process based on strategic alignment, value contribution, plus the organisation's capability and capacity

www.projectzonecongress.com



Portfolio governance and risk

– it's all about the stakeholder



Portfolio governance and risk

– it's all about the stakeholder



Project Zone Congress

Innovation, Speed, Execution Excellence

Risk Optimisation

- What is the optimum risk profile?
- It is NOT measured by risk management activity!
- Too little risk = lost opportunity leading to failure
- Too much risk = catastrophic failure



www.projectzonecongress.com

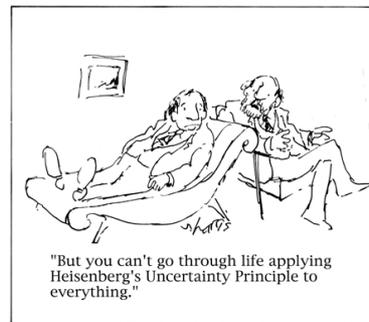


Project Zone Congress

Innovation, Speed, Execution Excellence

Risk Optimisation

- What is the optimum risk profile?
- It depends on your stakeholder's attitudes
 - Governing body
 - Owners
 - Workers and contractors
 - Affected Community
- Who really matters?
- What is their risk attitude?



www.projectzonecongress.com

Portfolio governance and risk – it's all about the stakeholder

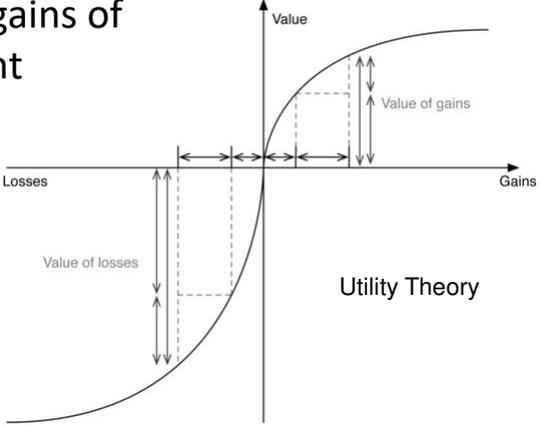
Project Zone Congress Innovation, Speed, Execution Excellence

Risk Optimisation

- People's reaction to losses are greater than to gains of the same amount



Tim FitzHigham in The Gambler



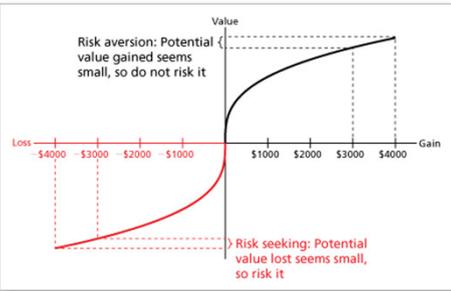
Utility Theory

www.projectzonecongress.com

Project Zone Congress Innovation, Speed, Execution Excellence

Risk Optimisation

- How much is 'too much'?
- Or how much is 'too little'?
- Portfolio data needs to be translated into meaningful information for your stakeholders



Risk aversion: Potential value gained seems small, so do not risk it

Risk seeking: Potential value lost seems small, so risk it

www.projectzonecongress.com



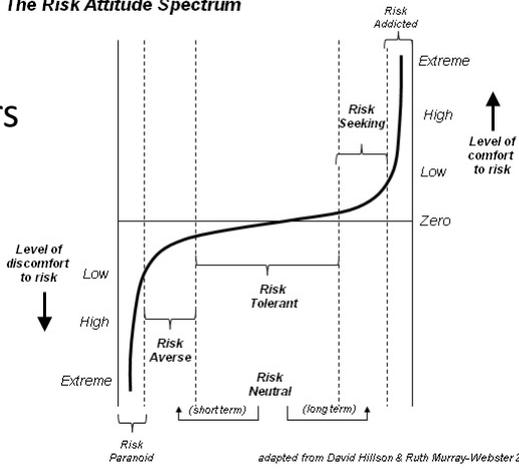
Portfolio governance and risk – it's all about the stakeholder


Project Zone Congress Innovation, Speed, Execution Excellence

Risk Optimisation

- Where do your key stakeholders sit in this risk spectrum?
- And how do you shift their attitudes?

The Risk Attitude Spectrum



adapted from David Hillison & Ruth Murray-Webster 2007

www.projectzonecongress.com


Project Zone Congress Innovation, Speed, Execution Excellence

Risk Optimisation

- Gaining the support of the **right stakeholders** to take the **right risks** to receive the **right rewards** requires understanding:
 - Who is important
 - Their current risk attitude
 - Then where necessary communicating to change attitudes



www.projectzonecongress.com



Portfolio governance and risk – it's all about the stakeholder

 Project Zone Congress Innovation, Speed, Execution Excellence

Risk Attitude

- **Step 1: *identify*** all stakeholders
- **Step 2: *prioritise*** stakeholders
- **Step 3: *visualise*** the community
- **Step 4: *engage*** all stakeholders
- **Step 5: *monitor*** the effectiveness of the communication

For more on the **Stakeholder Circle** methodology see:
<https://mosaicprojects.com.au/PMKI-TPI-075.php>

www.projectzonecongress.com

 Project Zone Congress Innovation, Speed, Execution Excellence

Risk Attitude

- Effective communication is the key



It takes two to tango!

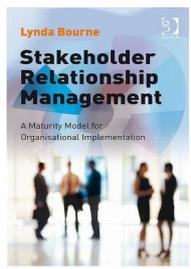
www.projectzonecongress.com

Portfolio governance and risk – it's all about the stakeholder

 Project Zone Congress Innovation, Speed, Execution Excellence

Resources

- Basic governance: **Directing Change, a guide to the governance of project management**
https://mosaicprojects.com.au/PDF-Gen/Directing_Change-v2.pdf
- Stakeholder management: **Stakeholder Relationship Management: A Maturity Model for Organisational Implementation**
<https://mosaicprojects.com.au/PMKI-TP>



Lynda Bourne
Stakeholder Relationship Management
A Maturity Model for Organisational Implementation

<http://www.amazon.com/Stakeholder-Relationship-Management-Lynda-Bourne/dp/0566088649>

www.projectzonecongress.com

 Project Zone Congress Innovation, Speed, Execution Excellence

Questions



www.projectzonecongress.com

