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

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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
Risk

- Risk is a perception – not a fact!

People decide on what is an ‘acceptable’ risk

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.
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Characteristics of Risk

- What level of risk matters?

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<tr>
<th>Impact</th>
<th>Likelihood</th>
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<tr>
<td></td>
<td>Rare</td>
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<tr>
<td>Catastrophic</td>
<td>moderate</td>
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<td>Major</td>
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<td>Moderate</td>
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<td>Minor</td>
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<td>Insignificant</td>
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The Risk of the Project

The risk the project poses to the organisation

It's bigger than the sum of the project risks
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: http://mosaicprojects.wordpress.com/2012/07/08/averaging-the-power-of-portfolios/

A Portfolio of Risks

• Portfolios require diversification to be effective

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

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)
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:
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Organisational Governance

The Governance of projects, programs & portfolios

External Stakeholders and Environment:
- Social
- Legal
- Physical

Internal Stakeholders and Environment:
- Interfaces to other systems
- Operations & functional management
- Strategic Planning

Program Management

Project Management

Supporting Techniques:
- Scheduling / Time Management
- Cost Control / Estimating
- Earned Value / WBS
- Risk Management

Value Creation:
- Benefits Realisation
- Transfer to Operations
- (or sale/transfer to customer)
- Maintainability / Support

Governance

• Project Program and Portfolio Governance

Organizational Governance

Strategic Governance

Innovation, Opportunities and Business Requirements

PPP Governance

Portfolios Programmes & Projects

Organizational Change and Benefits Realization

Source Draft ISO 21503

For more on PPP Governance see:
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Governance
• Portfolio Management = Selection for investment

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

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Risk Optimisation

- The Value Chain
- Benefits < Input Costs = Value
- But input costs are incurred first
- The flow creates uncertainty
- Uncertainty = Risk!

Innovation
Selection
Project
Outputs

Used by Organisation
Outcomes
Strategic Alignment
Benefits

Project Management Domain
Organisational Management Domain

www.projectzonecongress.com
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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

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?

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Risk Optimisation

• People’s reaction to losses are greater than to gains of the same amount

**Tim FitzHigham in The Gambler**

Utility Theory

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
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Risk Optimisation

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

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
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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: [http://www.stakeholdermapping.com/](http://www.stakeholdermapping.com/)

Risk Attitude

• Effective communication is the key

*It takes two to tango!*
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Resources

• Basic governance: *Directing Change, a guide to the governance of project management*

• Stakeholder management: *Stakeholder Relationship Management: A Maturity Model for Organisational Implementation*

Questions