Best Practices Guide

Five Steps to Actively Surface Risk

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Risk cannot be eliminated. But managing it proactively reduces unnecessary exposure and builds resilience.

A business which does not actively manage risks across the organization will struggle to expand, no matter how talented the team of experts it can field.

Businesses which identify and manage risk significantly better than others in the field reap a competitive advantage. They have a stronger basis for deciding what level of risk is acceptable. For instance, offering a low price on a particular project for commercial reasons may be acceptable when the managers have clarity about the financial implications, and know that robust risk mitigation is in place.

Identifying risk early also helps professional services organizations to keep levels of customer satisfaction high - seeing issues and raising them with the customer early is much better than waiting until an engagement goes off track.

In many organizations, senior staff, who have built up knowledge and experience of their sector over many years, are the only ones who can assess risk effectively. Tools like Professional Services Automation offer organizations a way to share knowledge across the business. Drawing patterns from the data gathered from previous projects enables likely issues to be predicted. It can also spot dangerous trends - for instance, margins slipping in a particular area.

In this Best Practice Guide from Kimble, we recommend five steps that support a strategic approach to risk management.

1 Formalize the Process

Prioritize innovations which will drive value for customers at competitive rates.

Risk assessment which is not driven by current data is little more than a box-ticking exercise, sometimes with a loose weighting attached to each item which doesn't bear much relation to the real-world metrics. Moving to a proactive and data-driven approach to risk involves instituting a rigorous process.

Data and insight can be drawn from previous projects to create a roadmap for each new proposal. This is a basis for asking why a particular engagement presents the same or different issues. Rather than having an audit-led, backward-looking process, the emphasis should be on looking towards the road ahead.

In this approach, issues identified at the proposal stage are defined and tracked, with a mitigation strategy for each one. There are several different kinds of risk: technical, operational, legal, business and so on. For instance, you might be bidding for a small, relatively straightforward consulting project that's being commissioned by a sponsor who also happens to be a board member for an important existing client. There is a business risk here, to do with the potential cost of damaging an important relationship. The mitigation might be to manage the relationships in this engagement at a senior level.

Another important way of reducing exposure is being clear about the scope of the proposal. It should be clear under what circumstances the customer may have to meet additional costs and what outcomes the contracting organization has agreed to provide.

Use insights gained from previous projects to create a roadmap or risk template, surfacing potential problems. This should be done as early as possible – at the proposal stage.

2 Bring risks to the fore.

In high-end engineering firms, if there is a very tricky aspect of a new build, they don't leave it until the end. Instead, they tackle it at the beginning of the process.

Bring the hardest aspect of the project to the front. Have difficult conversations early.

In contrast, in professional services businesses sometimes the process is reversed with easy deliverables foregrounded to build client trust – and to utilize less experienced resources. But if some way in, it becomes apparent that the project has not been well-designed, it is expensive to undo this and go back to the start. That is wasteful and drains resources. Where the most challenging parts of the project are done at the start, it becomes clear at an early stage if there is a problem. Perhaps this project can't be completed as planned – the sooner both sides know this, the better.

Raising risks with clients as soon as possible, ideally before the customer has even noticed them, is much better than waiting until the customer becomes aware of the problem. Becoming a trusted advisor involves being able to have difficult conversations. At any stage where the customer appears to have expectations that cannot be met, it is important to tell them.

As consulting guru Shane Anastasi points out in his book "The Seven Principles of Professional Services," there is often a cost to doing nothing. Anastasi points out: "Professional services engagements often fail because someone failed to act with sufficient urgency to avoid the consequences of an issue once it was spotted."

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3 Hand over responsibility for identifying risks

Don't have a "green light" culture where risk is suppressed and proposals are accepted without proper scrutiny. Make everyone from project managers to consultants responsible for identifying and recording issues.

In organizations where people at lower levels don't feel that flagging up risks is their responsibility, they tend to "green light" issues which should have had a note of caution attached.

Equally, if project managers and consultants simply escalate everything, bottlenecks emerge and more serious risks can get buried among less important matters. This situation means that the reality on the ground will diverge from the forecast much more regularly.

Typically a risk buffer is added to a project budget depending on the overall risk level. Project managers should be accountable for delivering to the project baseline, meaning they should not consume the risk budget if it's not needed. Using up or exceeding the risk budget leads to lost profits; operating without using it adds to profits. So there is a competitve advantage to doiing this better.

Train employees to identify significant risks to the business success of the engagement, giving them templates which predict risk. Make clear to project managers that they are accountbale for dealing with or highlighting issues when they arise and make sure they also have access to real-time and accurate data to do this.

Where project managers are clear about fundamentals such as the margin that this engagement was sold at, the scope of the project, the deliverables, the time scale, the risk profile of the project, and the roadmap, they will be able to troubleshoot more effectively. That is better for the business and it is also better for the relationship with the customer.

4 Take a disciplined approach

Make sure everyone understands the importance of updating information regularly. Check for projects diverging from the plan. Act on this information.

The risk assessment plan should be a live document which is continually reviewed and updated, not simply placed in a filing cabinet after the opportunity is won. Some risks materialize, evolving from risks into actual issues. New unexpected risks emerge. All risks should have a valid mitigation strategy.

Focus on the outcomes – what did your firm sign up to deliver? Any departure from that should be costed and the implications for both the contractor and the client businesses flagged up, before agreeing to the change.

As well as updating the risk assessment regularly, managers should encourage the delivery team to monitor for inevitable divergence from the forecast in each project. This information is key to surfacing risk at an early stage. If the hours worked are going up or the margin is slipping, there is obviously a problem which should be tackled immediately. And if a particular project appears to be 100% on track, well that is also a major warning sign because in the real world there is always some divergence.

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5 Use risk information to make better decisions for the business as a whole

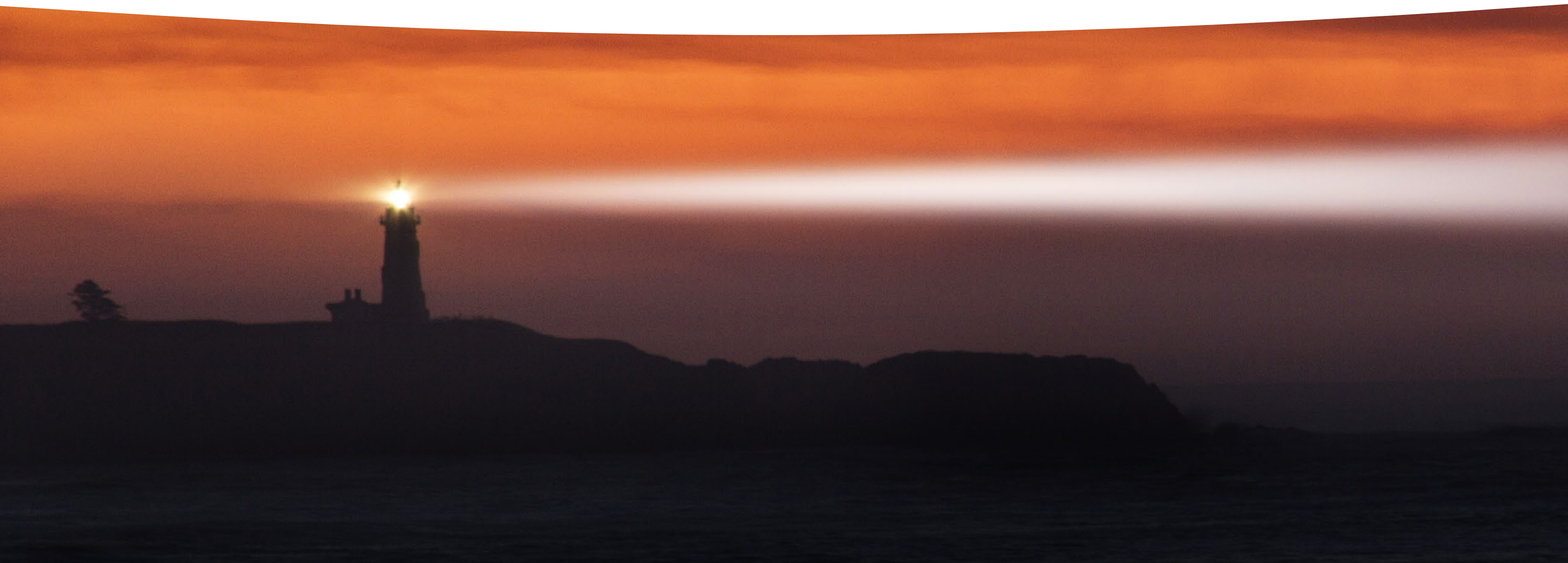
Seeing the risk landscape more clearly allows for better business decisions.

As well as risks for each project, risks can compound and multiply each other. For instance, coming down the line there is a lapse in demand for resources in more than one area, creating the potential for a high proportion of resources to hit the bench at one time – can a focused effort to sell this time avoid the risk?

Where margin is slipping in a particular area or skill set, can it be discerned what is causing the underlying trend? How can the organization remedy this before it starts to affect revenue?

For a professional services company, risk is also an opportunity – it's a way of increasing margins. Operating in challenging areas without consuming risk budgets increases profits. Where there are areas where there is potential for innovation, taking a calculated risk to invest in a new proposition may be the best course of action. And identifying risks which face customer organizations and being able to deal with them is an important driver of growth.

Spotting issues early also enables consulting organizations to build closer relationships with customers. It may be possible to sidestep risks that are flagged up ahead of time. But even when issues do arise, there is time to deal with them. And, where there is a problem, it is preferable for the services provider to bring this to the customers' attention immediately, along with a mitigation strategy, rather than to wait for the customer to notice.



Conclusion

Professional services organizations which actively surface and manage risk reduce their exposure to avoidable problems. That builds the business's resilience and its capacity to cope with the uncertainties and challenges of the wider world.

Businesses which take a proactive approach to risk are in a better position to keep customer satisfaction high. Issues that are surfaced can be dealt with sooner. It is better to have difficult conversations with customers than to wait until they notice that there is a problem.

Most successful professional services organizations which grow and scale take a proactive and disciplined approach to risk management.

Example: The Tribal Group

"We wanted to be more objective and data-driven to enable us to identify and intervene in the projects most at risk." Rob Garner, former Tribal Group CEO

The Tribal Group is an international education software and services business operating in more than 55 countries and serving thousands of educational institutions, training providers, and employers. Tribal Professional Services adopted Kimble in 2014. Former Tribal Group CEO and Kimble sponsor Rob Garner said PSA helps them to surface project risk. It turm that helps them to target intervention at the right projects, in a timely way. "**We didn't want to intervene in projects on the basis of who complains the loudest. We wanted to be more objective and data-driven to enable us to identify and intervene in the projects most at risk.**"

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