



**Failure Is Not An Option**



# DNV Experience

- ❖ Worldwide client base
- ❖ Over 100 years in business
- ❖ Over 30 years in Business Risk Consulting



## Objectives

- ❖ Demonstrate a complete understanding of project risks (external and internal) so that your organization's strengths and strategies for overcoming these risks can be described.
- ❖ Justify the quoted price.
- ❖ Avoid risk of underbidding, and thus winning the contract for an unprofitable price.



## Rationale

- ❖ Risk management is highly fragmented both in concept and practice
- ❖ Few organizations have developed a highly integrated, risk based strategy for writing proposals
- ❖ Typically threat/downside focused on financial and SH&E concerning tangible assets.
- ❖ This is positive, proactive risk management

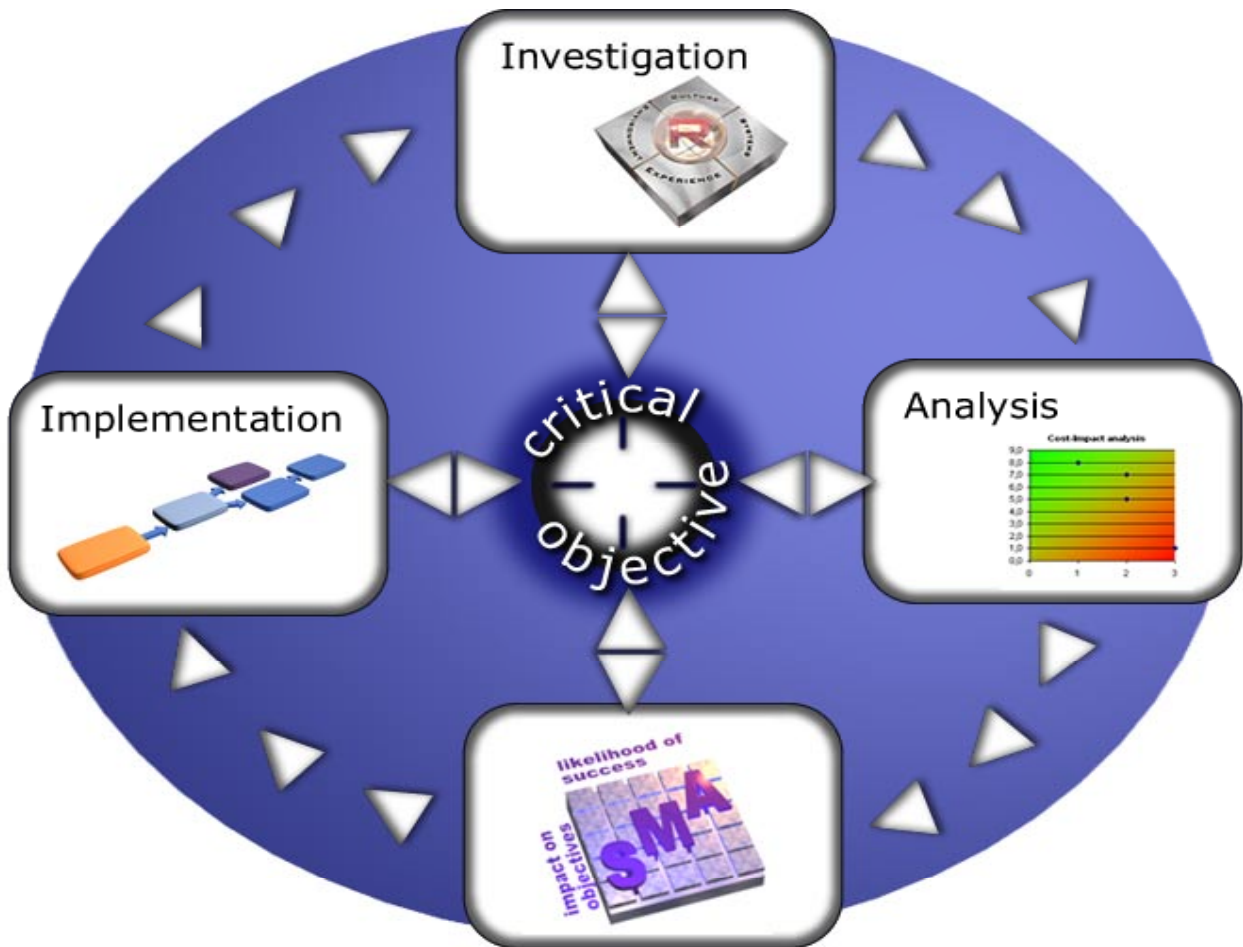


## A New Approach Needed

- ❖ Threat and opportunity linked. A defensive posture alone does not win
- ❖ Effective risk decision making is a source of competitive advantage
- ❖ We either must optimize risk or continue to get blindsided by unexpected events.
- ❖ It is not risks that get organizations into trouble, it is how decisions are made about risks.”



# Five Step Process





## Using DNV *R-Model*?

A proposed:

- ❖ Acquisition
- ❖ Venture
- ❖ Project
- ❖ Divestiture
- ❖ Diversification

A major change in:

- ❖ Personnel
- ❖ Equipment
- ❖ Material
- ❖ Environment
- ❖ Process



## R-Model - Experience Dimension

# Individual & collective learning

Do you have 10 years of experience or  
1 year of experience repeated 10 times?



## R-Model - Experience Dimension

### Organization

- Past losses
- Results
- Citations
- Litigation

### Individual / Group

- Personal relationships
- Training
- Successes/Failures
- Accumulated Experience



## R-Model - Experience Dimension

### **Relying on Experience to Understand “R”**

Individuals within an organization bring their own experiences to the table. The result is that we have separate mini-cultures within the overall organization.

This skews risk perception and response.



## R-Model - Experience Dimension

### Relying on Experience to Understand “R”

- ❖ Those who do not use the 4 dimensions of the R-Model tend to let experience be the main driver.
- ❖ Relying exclusively on experience to understand “R” will lead to **(traumatized view) under designing** or **(over optimistic view) over-designing** your strategy



## The Failure of Hindsight

Why Organizations fail to *learn* from experience, their own and that of others...

- ❖ Culture of denial of failure, e.g.,
  - bad luck
  - failure of others,
- ❖ Therefore, we *learn* that nothing really needs to be *fixed*

Brian Toft - 1990, The Failure of Hindsight



## R-Model - Environment Dimension

### Definition of Environment

‘surroundings’

*or, the total environment in which an organization operates (especially those impacting the way it carries on its business functions).*



## R-Model - Environment Dimension

# The Issue of *Connectedness*

When we try to pick out anything by itself,  
we find it hitched to everything else in the  
universe.

John Muir



## R-Model - Environment Dimension

### External

- Political
- Client
- Regulations/Standards
- Market Demands
- Economy
- Competition
- Seasonal Issues

### Internal

- Infrastructure
- Facilities
- Workforce
- Knowledge
- Technology
- Work Ethic
- Processes
- Material



## R-Model - Culture Dimension

Strongly-held assumptions & beliefs,  
expressed values, daily behaviors &  
conditions

*If you really want to understand your culture,  
try to change it.*

*Peter Drucker*



## Manifest Level of Culture

The day-to-day behavior and conditions, which often reflect a compromise between the assumptions, the expressed values and the immediate requirements of the situation



## R-Model - Culture Dimension

### Individual

- Experience
- Values
- Attitudes
- Reward System
- Norms, Assumptions
- Ethics

### Organization

- Liability/fear
- Appetite for Improvement
- Competition
- Management Style
- Risk Attitude, Tolerance
- Ethics



# Systems Influences

## Systems Defined

‘Systems’ are all the processes, activities, tasks and resources employed by management to move information within their organizations, to make decisions and to implement change.

*R. Waterman*

The way you do the things you do.



## R-Model - System Dimension

### Systems (& Processes)

- ❖ Knowledge/Information
- ❖ Change Management.
- ❖ HR/Personnel
- ❖ Communications
- ❖ Training
- ❖ Control Systems



# Case Study - Barings Bank



## Barings Bank Failure

The February 1995 collapse of Barings, the UK's oldest merchant bank, following the discovery of losses amounting to more than \$1.2 billion dollars. Initial blame was against a chief trader, Nick Leeson, who had hidden losses greater than the bank's total assets.



# Barings Bank - Experience

- ❖ Security Traders historically generated the bulk of the profits for the entire group.
- ❖ Massive bonus payments given to traders
- ❖ Five other fraudulent trader cases in the banking industry prior to the Barings case.
- ❖ Lack of profitability. Losses after years of fat profits.
- ❖ Unwillingness to "kill the goose that laid the golden.



# Barings Bank - Environment

- ❖ Weak and remote regulatory control through the Bank of England
- ❖ Entry into the options and futures market with higher risk
- ❖ Massive bonus expectations
- ❖ Overhead, e.g., Human Resources, reduced
- ❖ Era of the *Rogue Trader*, i.e., fraudulent traders, embezzlement.
- ❖ Consolidation of two organizations to restore profitability, i.e., Barings Bank and Barings Securities



## Barings Bank - Culture

- ❖ Permissive style of management, business first, control second
- ❖ Consolidation brought together the conflicting of banker and broker
- ❖ Numerous examples of personal animosity and rivalry driven by money and culture related conflicts
- ❖ Management a secondary role or for those unable to produce revenue.
- ❖ The "untouchable" syndrome associated with successful traders.

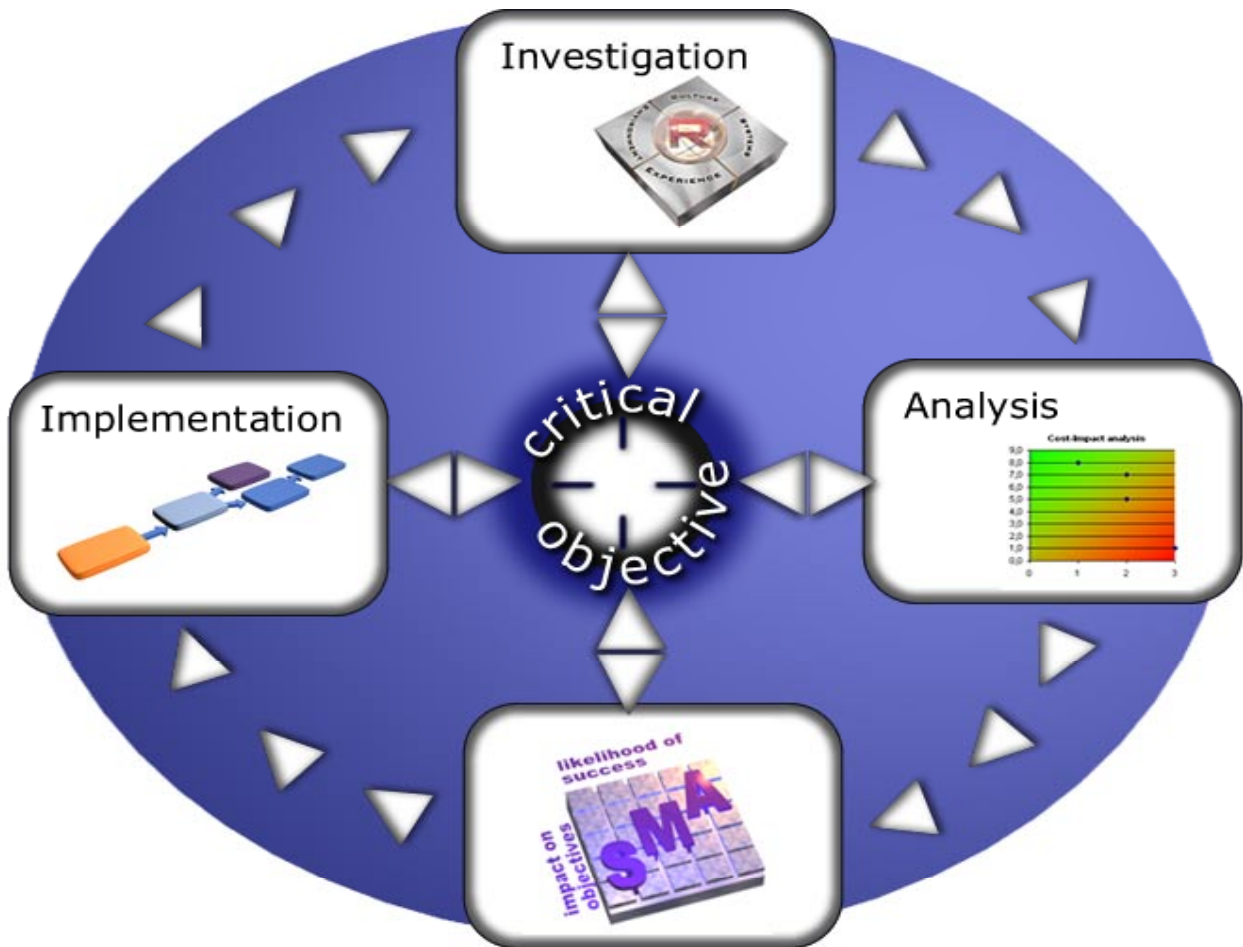


# Barings Bank - Systems

- ❖ Lack of internal control, including segregation of duties
- ❖ No systems of controls for detecting fraudulent activity or dealing limits
- ❖ Lack of human resource function and related systems, e.g., selection, training, promotional and responsibility, supervision and authority, reward structure, performance management
- ❖ Lack of reporting system to identify risks and exposures each day.



# Five Step Process





# Risk Analysis

Consequence →

↑

Likelihood

	Negligible	Marginal	Critical	Catastrophic
Frequent				●
Probable		●		
Remote			●	
Incredible				



## Strategy: How Do We Optimize It?

*“Men stumble over the truth from time to time, but most manage to pick themselves up and hurry off as if nothing had happened.”*

Winston Churchill



# Risk Decisions

Now that we have developed the matrix (a risk footprint) for both threats and opportunities, we must decide:

For **Threats** do we:

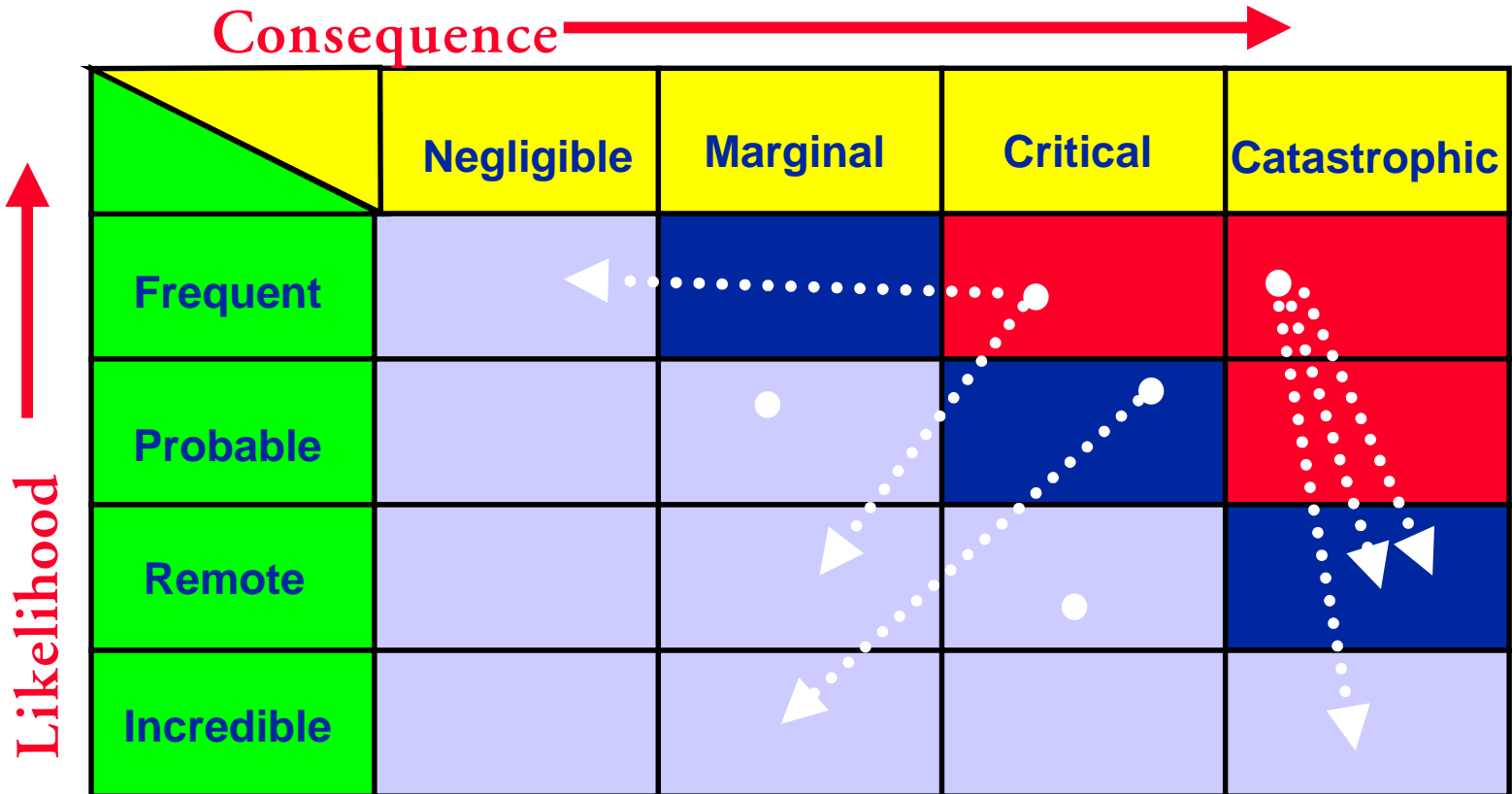
- Stop
- Minimize
- Retain
- Share
- Transfer

For **Opportunities** do we:

- Start
- Exploit/Maximize
- Retain
- Leverage

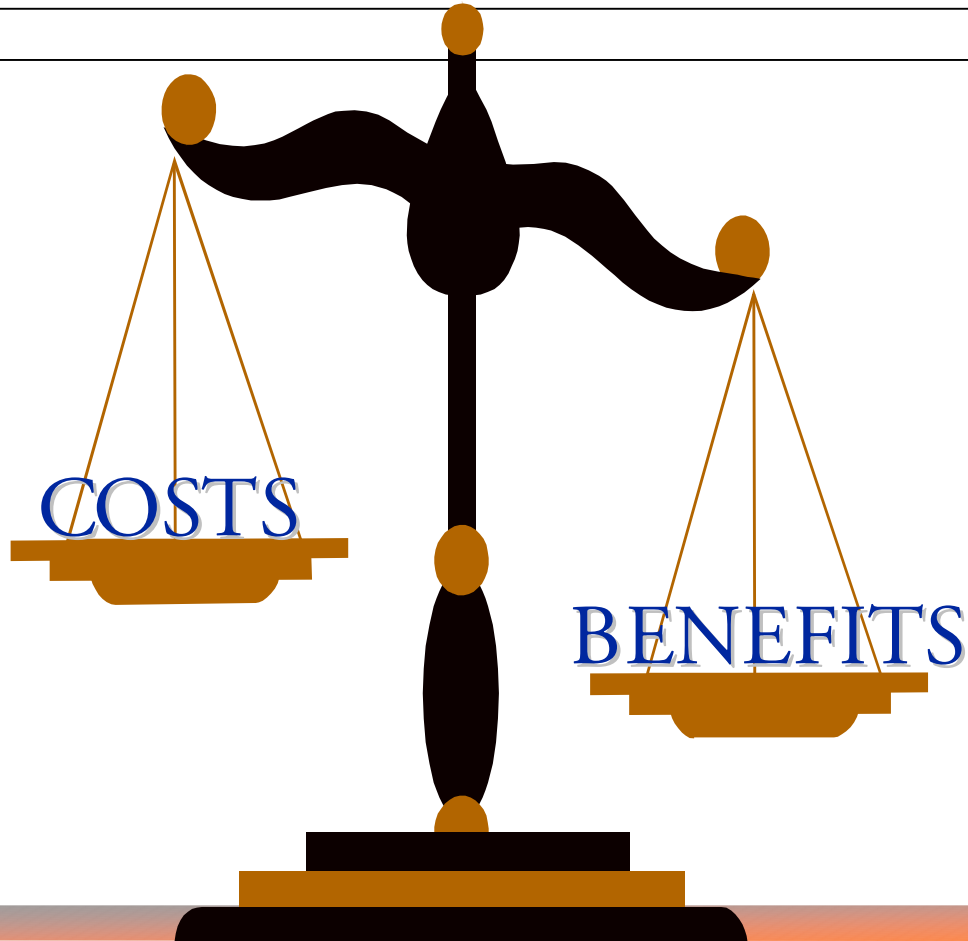


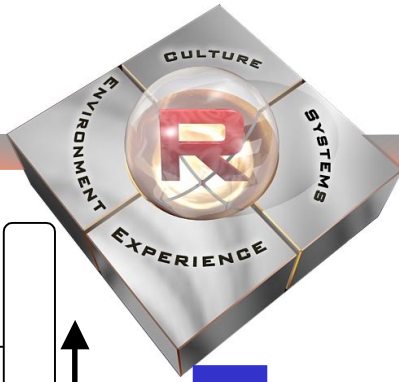
# Strategic Alternatives



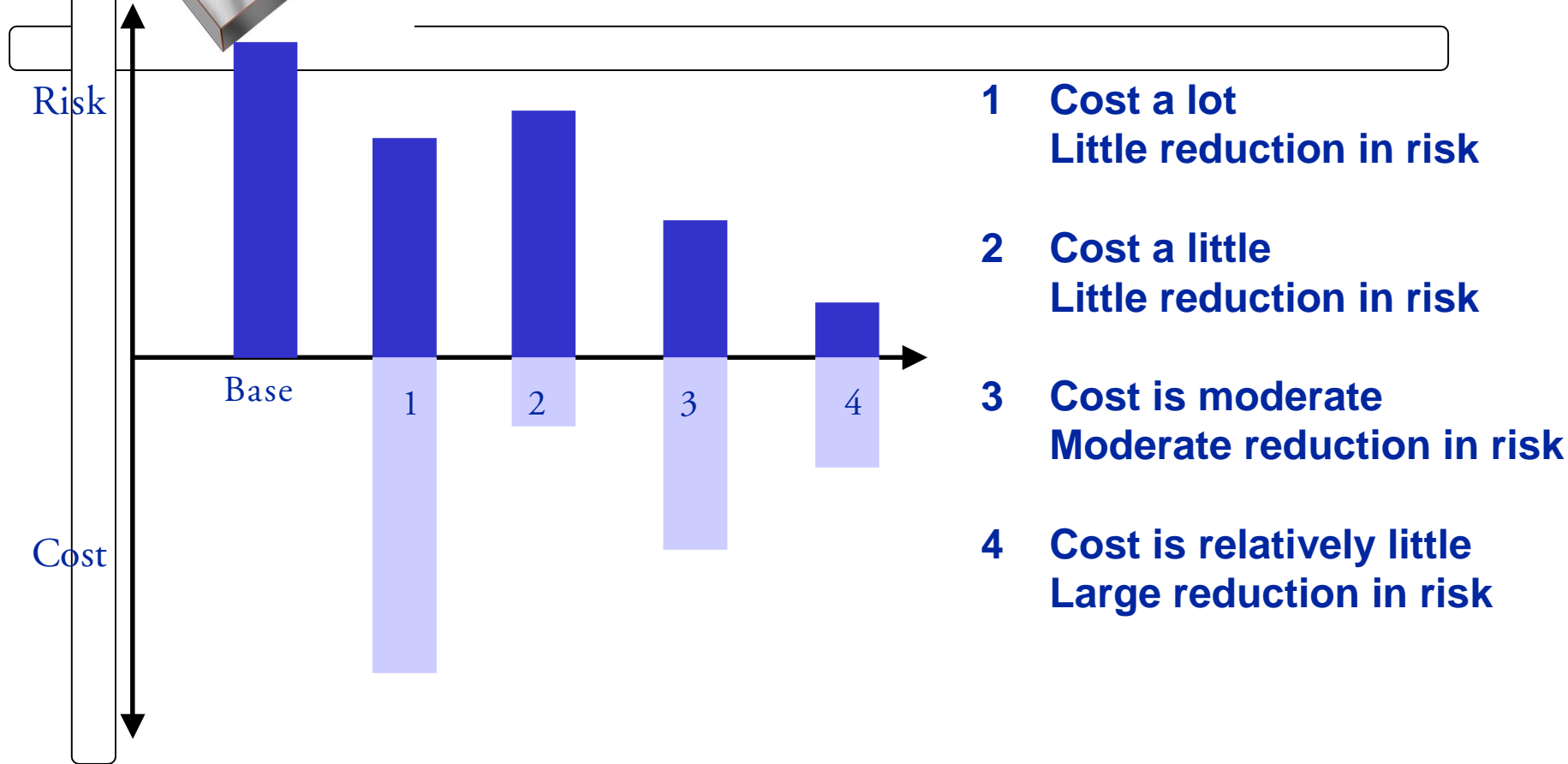


# Costs Vs Benefits





# Costs Vs Benefits





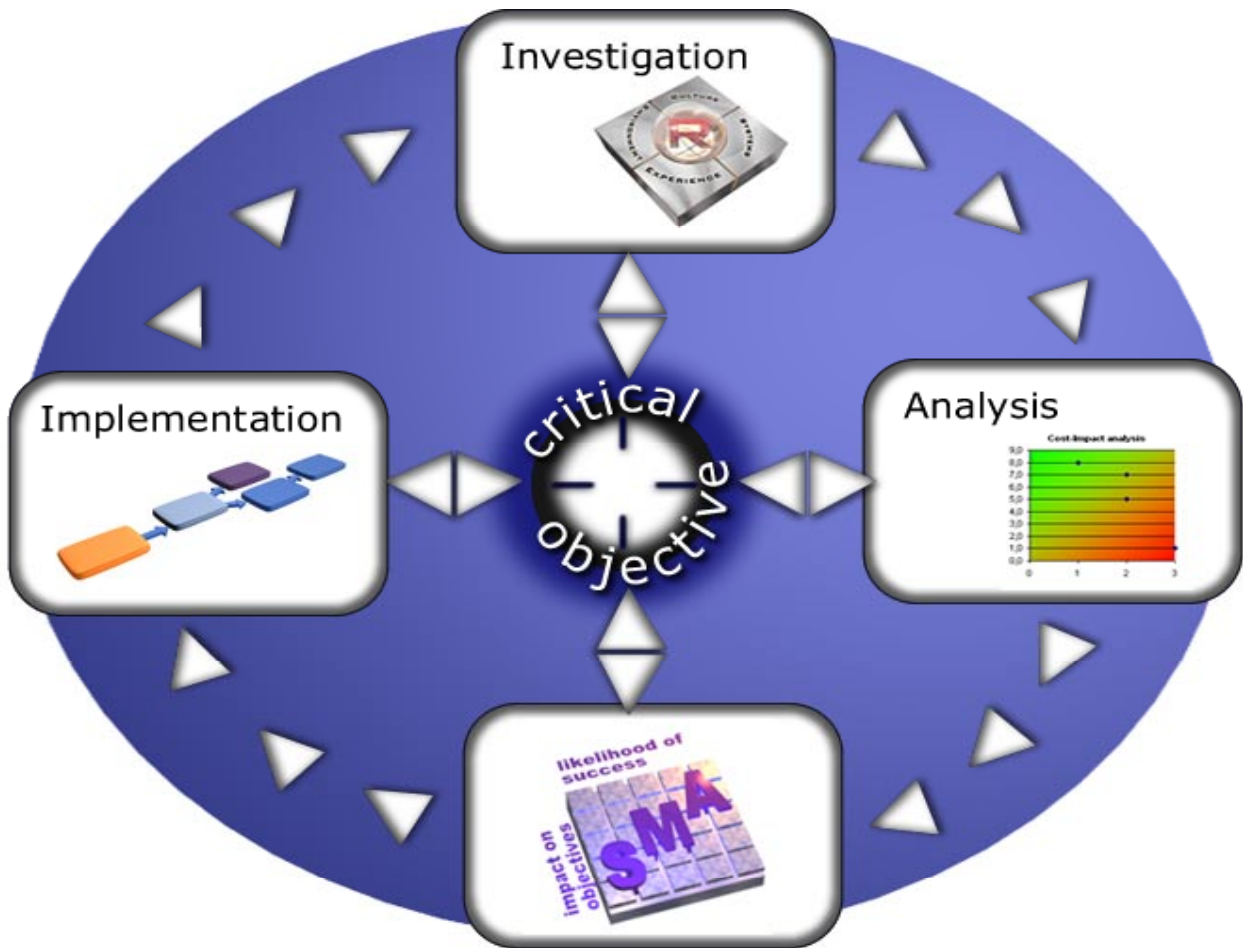
# Solution Maturity Analysis

- ❖ Assess the barriers/constraints related to the actual implementation of the solution
- ❖ Understand feasibility of proposed solutions prior to implementation
- ❖ Exclude non-efficient and non-feasible solutions





# Five Step Process





## The Payout

- ❖ Exposing the majority of threats and opportunities by using a consistent risk-based methodology provides confidence of a well designed strategy for achieving the proposal requirements at a reasonable price.
- ❖ Increase ROI using a **UNIQUE APPROACH** to business decisions
- ❖ The decisions are traceable



# The Challenge

- ❖ **Risk Decisions** are inextricably linked to performance - good & bad
- ❖ **Risk Taking** is non-negotiable. We all do it, every day, every person, every company, every government
  - Not to be risk averse, but to make the right decision about risk.
- ❖ **Risk** confidently requires a total **R** approach,
  - The focus on any one or two **R** dimensions, to the exclusion of others, is both seductive & ruinous.



## Proposal Risk Management

**“If you are keeping your head while others around you are losing theirs, perhaps you’ve misunderstood the whole situation”**

**Anonymous**



# Proposal Risk Management

When you find yourself in a new environment,  
do you come up with a  
fundamentally different approach?

**That's the test.**

Are you dealing with new things?

Are you regenerating?

**When you flunk you leave!**

Jack Welch