Risk management approach for Business transformation Programs

Sandeep Savla, Infosys Technologies Ltd. email: sandeepvsavla@infosys.com

Business transformation initiatives are undertaken by enterprises to reduce the risk of misalignment and build agility and adaptability to market changes. Predictability of desired outcomes needs to be managed by mitigating inter-dependent risks associated with changes in processes, systems, operating procedures, employee and customer base etc. Proposed approach details comprehensive approach to measure enterprise risk management maturity by measuring its ability to identify risk, measure impact and define mitigation strategy. Model is further enhanced by provisioning for feedback to measure the effectiveness of mitigation and ensure that outcomes are within desired limits. Intended audience of the paper is Senior Executives, Business partners, Program Managers, Project/Track Leads working with Program organization groups, PMO and steering committee.

1. Transformation Challenge

Transformation programs are driven by strong business imperative which includes a) Attractive Business case with benefits outweighing costs b) Calculated risks to be successful in current market conditions and c) Strategic goals related to company vision and values.

Transformation initiatives are associated with high risks due to following challenges:

- Market environment is unpredictable: While many companies are filing for bankruptcy, other companies are closely reviewing their business models and operations for survival in current economically challenged conditions.
- Need for innovation: Increasing need to accelerate go to market strategies comes with constant need to innovate and change the business model.
- Aligning to industry: Due to aging workforce and industry dominated by mergers and acquisitions, there is growing need to align with industry to allow greater efficiencies in workforce, processes and other costs.
- Evolving technology: Technology provides greater scope for adopting standard best practices with constant challenge to improvise new practices.
- Resistance to change: Transformation initiatives needs strong change management for successfully achieving the needed business imperative.

Strong risk management approach is needed for minimizing the unpredictability associated with transformation related initiatives.

2. Factors influencing the risks

Following factors results in unpredictability in transformation programs and needs to be managed. Factors can influence the outcome in a positive way or negative way.

Factor	Negative impact to desired outcome	Positive impact to desired outcome
Business case	- Tendency to be driven by pre-conceived business solution and retro-fitting cost benefit analysis. - Neglecting cost of opportunity	- Comprehensive what-if analysis to cover best and worst scenarios in a business case
Communication Management and Governance	- Unclear roles and responsibility; Undefined accountability - Unplanned communications	- Knowledge enabled organization having communication plan with feedback loop
Executive sponsorship	- Commitment of sponsors - Inability to handle conflict of interest situations in impartial manner	- Providing strategic direction based on analytical data points
Policies	- Policies resulting in reduced innovation	- Policies developed to resolve operational conflicts

Motivation	- Driving towards strategic goal with negative factors like job security, new technology enabled process etc	- Highly motivated group with a common group goal with minimal consideration of personal benefits
Stakeholder Management	- Neglecting key stakeholders in decision making processes or information flow	- All stakeholders needs identified and managed
Organization change management	- Managing change by force - Benefits of change not demonstrated to stakeholders	- Change management from ideation through implementation
Performance Management	- Neglecting mechanisms to measure activities against business goals - Not realizing benefits and values as per the charter	- Periodic measurement of performance with ability to improve
Data & Information	- Not leveraging data points from process and other feedbacks to correct the outcome deviations	- Leveraging data points to drive the decisions and avoid risk occurrences
Enabling technology	- Allowing technology capabilities to drive the strategic \ business goals	- Leveraging technology to drive innovation for business
Political dynamics	- Inability to address hidden agenda within the organization system	- Decisions with consensus from the stakeholders
Methodology	- Inadequate methodology to produce high quality and cost optimized solution to business problem	- Proven methodology along with correct implementation leveraged
Social consciousness	- Goal neglecting environment and other negative implications	- Minimizing social, environment and other negative impacts with ability to provide alternate solutions
Force Majeure	- Inadequate disaster recovery planning	- Pilot tested disaster recovery plan

3. Risk Management for Transformation - Life Cycle

Business transformation involves establishing business imperative, defining vision and targets, realizing the targets and refining for future needs. During each of these phases, risk management framework closely integrates with the transformation phases for achieving the desired outcomes.

Risk management life cycle includes following:

<u>Define and plan risks:</u> Understanding the Business imperative, market conditions and other socio-economic factors are inputs to the process of planning the risks. Process includes identifying the impact thresholds, severity & importance to prioritize the mitigations. Output includes the risk plan along with mitigation actions and possible trigger points.

<u>Align & execute mitigations:</u> Mitigation plan, resources (people, process, tools) and change management plan form inputs to the process of execution. Process includes performing the mitigation actions and reducing the impact of the risk to the outcome. Output includes re-alignment of risks with noise factor to the target.

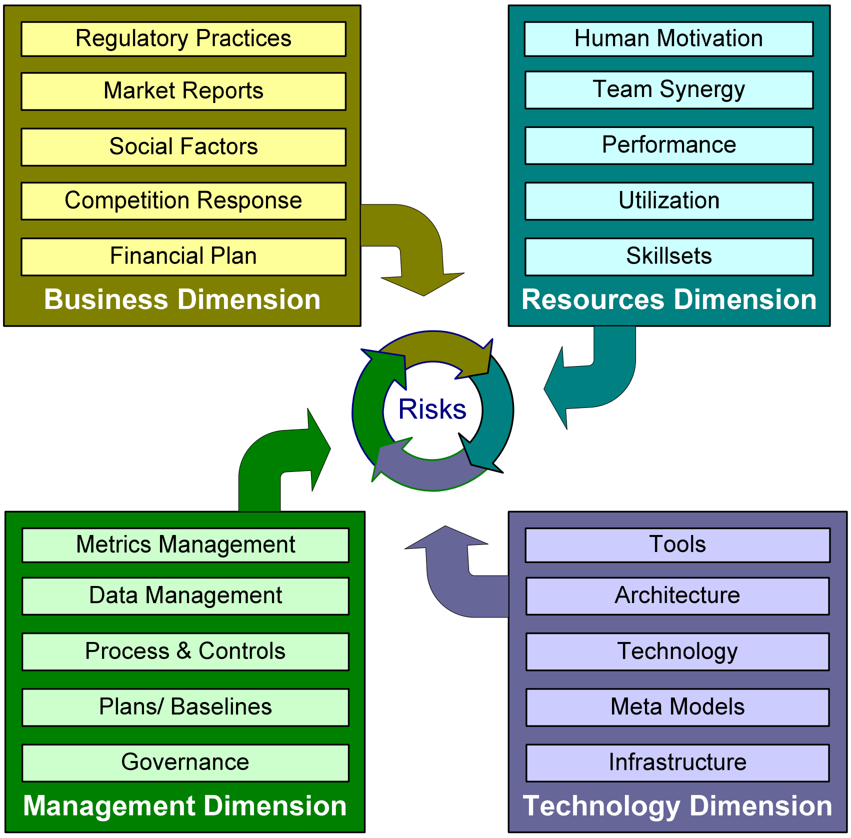
Measure & Analyze: Mitigation actions and program metrics data is input to this process. Process includes defining control points and measuring the risk impacts to outcomes. Output includes risk feedback, change management plan and simulation models.

Review & Refine risks: Risk management plan and feedback is input to the process of reviewing the risks. This is ongoing process to determine change in risks and also to identify new opportunities resulting in change in business imperative or methodology. Risk tolerance level in different phases of the transformation program is also taken into account.

Exploit opportunities: In the entire process, additional opportunities are uncovered to positively modify business imperative, vision, target or realization values.

4. Multi-Dimension Risk Management

Business transformation programs need multi-dimensional approach for risk management. All the risks need to be effectively analyzed on each of the dimensions to determine appropriate mitigation strategy.



Business Dimension: Business decisions are influenced by various factors like company financial performance, market share, competition strategy, socio-economic conditions and other legal regulations. Handling of business related risks is of utmost importance for a transformation program due to the impact it can result.
Management Dimension: Strategic initiatives need direction from management as well as proven implementation methodology. Sound program management practices supported with data based metrics and controlled process is needed to manage the risks.
Resources Dimension: Support from adequate resources working towards common objective can help in minimizing the risks. Effective performance & utilization of all the resources is needed for the goals.
Technology Dimension: Technology based innovation can help in minimizing the risks by providing higher predictable outcomes.

All the above dimensions has to be coherently managed to avoid following effects on the risks

a) *Bubble effect:* Impact of one risk on another risk resulting in larger risk and higher impact. Managing risks as stand alone risks may result in ineffective mitigations.
b) *Wave effect:* Managing varying impacts at different points of time and different phases of the program. All Risks has to be analyzed and mitigated on continuous basis to keep the outcomes in right direction.
c) *Cloud effect:* Inherent assumptions taken resulting in unmanaged risks. Unforeseen risks leads to surprises as they are not mitigated.
d) *Star effect:* Mitigated risks can re-occur at different point of time.

5. Define and Plan Risks

In Business transformation programs, risk identification process can be critical for ensuring that all possible noises in the program are trapped for achieving the objectives. Following techniques helps to identify the risks:

Business case analysis: Analysis of the business case and detailed inspection of anticipated benefits & costs helps to identify risks. Strength, weakness, opportunity and threat (SWOT) analysis for successfully implementing the transformation program also provides the framework for inspecting the risks.
Benchmarking: Comparing the business objective and implementation approach with similar initiatives within our outside the company helps to identify additional risks based on lessons learnt from other initiatives.
Decision and Assumption inspection: Every assumption taken in the planning can potentially pose as a risk and hence needs a detailed inspection. Analysis of issues raised and decisions taken along with reasoning of the decisions can also provide inputs.
Knowledge base: Detailed interviews or brainstorming sessions with people experts and capturing their inputs based out of the experience helps to identify risks. Comparison of skills needed for the program with the actual skills available in the program can also provide inputs to defining the risks.
Tools: Industry standard tools like simulation models, risk questionnaires, data analysis tools can be deployed to measure outcome deviations and identify risks.
Project plan review: detailed analysis of work breakdown structure, critical path, dependencies, timelines, effort and resource allocation can help in identifying risks.
Influence analysis: detailed analysis of stakeholder needs and their influences along with the enabled governance structure and communication plan helps to identify additional risks.
Risk mitigation measurement: Effectiveness of risk mitigation plan with its measurement framework provided feedback to define additional risks.

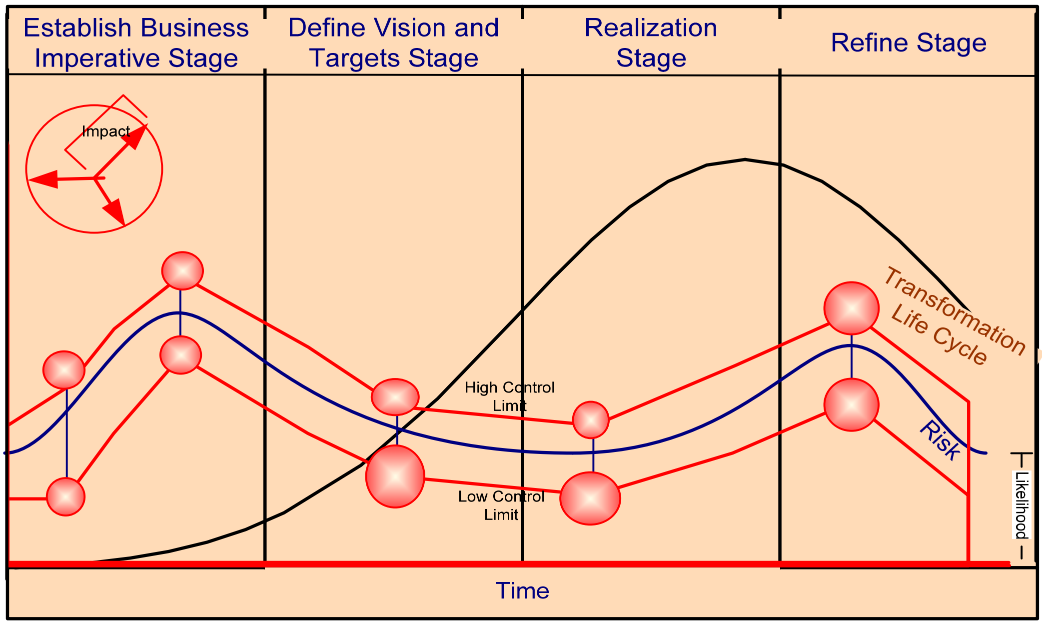
6. Align and Execute Mitigations

As there are many sources for risks in business transformation program, it is critical to align the risk and plan the mitigation actions. Risks needs to be prioritized based on following:

- **Likelihood:** Probability of risk materializing in relation to the timeframe of the program
- **Business Impact:** Impact of the risk on the business and program objectives
- **Frequency:** frequency of occurrence of the risk
- **Risk tolerance:** Risk tolerance limits set by executive governance structure
- **Critical path impact:** Addressing the risks that are impacting critical path activities
- **Agility in risk response:** Agility of organization to address the in-process risks
- **Mitigation strategy:** effort to mitigate the risk and determine the strategy for mitigation like Avoidance, transfer, reduction, contingency or acceptance of the risk.

Following diagram demonstrates following

a) Risk patterns may not be directly proportional to transformation life cycle. High risk zones are present during initiation phase as many critical decisions are taken and towards the end of realization phase when user acceptance is critical for success of the initiative
b) Risk impacts and also probability of occurrence can vary over a range depending on mitigation strategy
c) Risks can re-occur at different points of time and mitigation strategy may need to be re-implemented
d) Each risk cannot be assessed on stand alone basis and needs to be mitigated with assessment on overall impact.

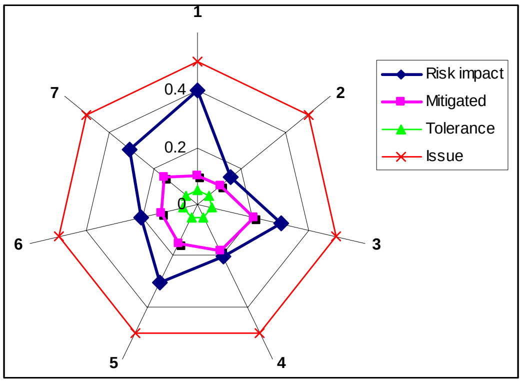


7. Measure and Analyze Risks

Risk impact and effectiveness of mitigation strategy needs to be measured to reduce the deviations in the plan. Root cause analysis can be performed for any anomalies identified during this process.

Risk measurement need to meet following objectives:

a) Ensuring that all risks are mitigated based on the impact to the goals
b) Ensuring effectiveness of mitigation strategy
c) Risks are classified and addressed at right level of governance



Measuring Exposure

All the risk impacts are measured in relation to each other. Risk impacts are measured by assessing the impacts to the overall goal of transformation program. Simulation of various mitigation options is performed to identify and finalize the mitigation action. Risk exposure is the area covered by mitigation plot in the chart. Any risks which are beyond the tolerance limits are resolved as an issue than using risk management framework.

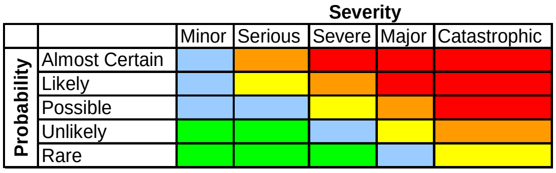
	1	2	3	4	5	6	7
1	1.00	0.42	0.04	0.31	0.37	0.45	0.91
2	0.42	1.00	0.15	0.15	0.81	0.45	0.98
3	0.04	0.15	1.00	0.60	0.56	0.98	0.64
4	0.31	0.15	0.60	1.00	0.14	0.66	0.56
5	0.37	0.81	0.56	0.14	1.00	0.85	0.96
6	0.45	0.45	0.98	0.66	0.85	1.00	0.66
7	0.91	0.98	0.64	0.56	0.96	0.66	1.00

Measuring Correlation

Risks may be correlated to each other and hence can be addressed by a common mitigation strategy. It is important to identify the correlation coefficients amongst various risks to allow for effective and common mitigation strategy.

Measuring Probability

Probability of occurrence can be defined using experiences from similar program along with additional monitoring cues to identify the risks before they occur. As risks occur, probability can be assessed along with severity. Depending on risk appetite of the program needs, these risks can be addressed at different levels in the organization. Enabling risk scoring framework allows escalation of high risks to program steering committee for further action.



Legend		
Extreme		Escalate to Steering committee
High		Immediate action plan needed
Significant		Mitigation action needed
Moderate		Manage carefully
Low		Manage routinely

8. Review and Identify Opportunities

Final stage of risk management framework is to review risks and identify opportunities. Identifying opportunity needs creation of organization wide mindset by stimulating new ideas to counter the risks. Additionally, transformation programs needs heavy investments and carry opportunity costs.

Following processes enables risk review process:

a) Lessons learnt sessions: Lessons learnt at end of each life cycle provides data points needed for risk reviews
b) Financial results: Financial result analysis like cash flow analysis, profitability, volatility and other ratio analysis allows measuring of effectiveness of risk mitigations
c) Audits: Internal and external audits ensure the need of strengthening risk management process and ensure minimization of exposure
d) Independent estimates: Independent estimates of schedule, cost and quality can provide comparison data points for the planned deviation for the transformation program
e) Executive Commitment: Commitment from executives is an important aspect of review process

9. CONCLUSION

Risk management framework for business transformation programs enables systematic approach to identify, assess, prioritize and mitigate risks. The framework provides techniques for defining the risks and provides the foundation for mitigation plan. Assessment methodology in relation to business transformation life cycle provides ability to prioritize risks and mitigate actions. Measurement of effective mitigation strategy provides quantitative approach to minimize the deviations in the program. Risk review process helps to identify opportunity and provides feedback to correct the mitigations allows for a self-learning method for execution of risks.

About the Author

Sandeep Savla is a Program Manager with Infosys Technologies with specialization in the field of Business transformation programs for Utility Companies. Sandeep has led multiple business transformation programs and has enabled many best practices for the clients. Sandeep has master's degree in business administration and is certified PMP, certified corporate information factory architect, certified utilities consultant. He has also published white papers on effective program management practices in international forums.