Where Risk Thinking Breaks Down (and What to Do)



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Risk Identification

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Project Uncertainty: A Taxonomy

ORGANIZATION
- Project/Portfolio Risk
- Operational/Functional
- Enterprise
- External Stakeholders

CONTRACTS
- Ground Rules & Assumptions
- Contract Geometry (CPIF, FFP, etc.)
- Regulatory Compliance
- International Trade
- Negotiation Loss

PROGRAM OBJECTIVES
- Cost/Schedule
- Technical/Requirements
- Safety
- Quality
- Environment
- Security
- Customer Satisfaction

PROGRAM LIFECYCLE
- Proposal
- Development
- Production
- Sustainment
- Major Milestones

METHODOLOGICAL
- Waterfall
- Agile
- Hybrid

MATERIAL AND SUBCONTRACTS
- Supply Chain Logistics
- Supplier performance
- Single-source
- Diminishing Resources
- Obsolescence
- Depreciation

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Project Uncertainty: Definitions

RISK

- An event, which may or may not happen, that could negatively impact program objectives

OPPORTUNITY

- An event, which may or may not happen, that could positively impact program objectives

What elements are necessary?

- Uncertainty in occurrence
- Specific program objectives

UNCERTAINTY

Can be a risk or opportunity

ISSUES

- An event which is certain to occur or is currently happening

Event-Driven Uncertainty vs Duration Uncertainty

Project Uncertainty: The Breakdown

IS IT ACTUALLY A RISK?



54% of sampled program managers do not have the correct definition of a project **issue** versus a **risk**.

For the 8% of projects that report having an issue management process, only 40% report following that process.

- Issues often get treated ask risks
- Legitimate risks get ignored
- Opportunities get over valued

Source: Mossalam, A. (2018). *Projects' issue management. HBRC Journal, 14*(3), 400-407. https://doi.org/10.1016/j.hbrcj.2017.12.001

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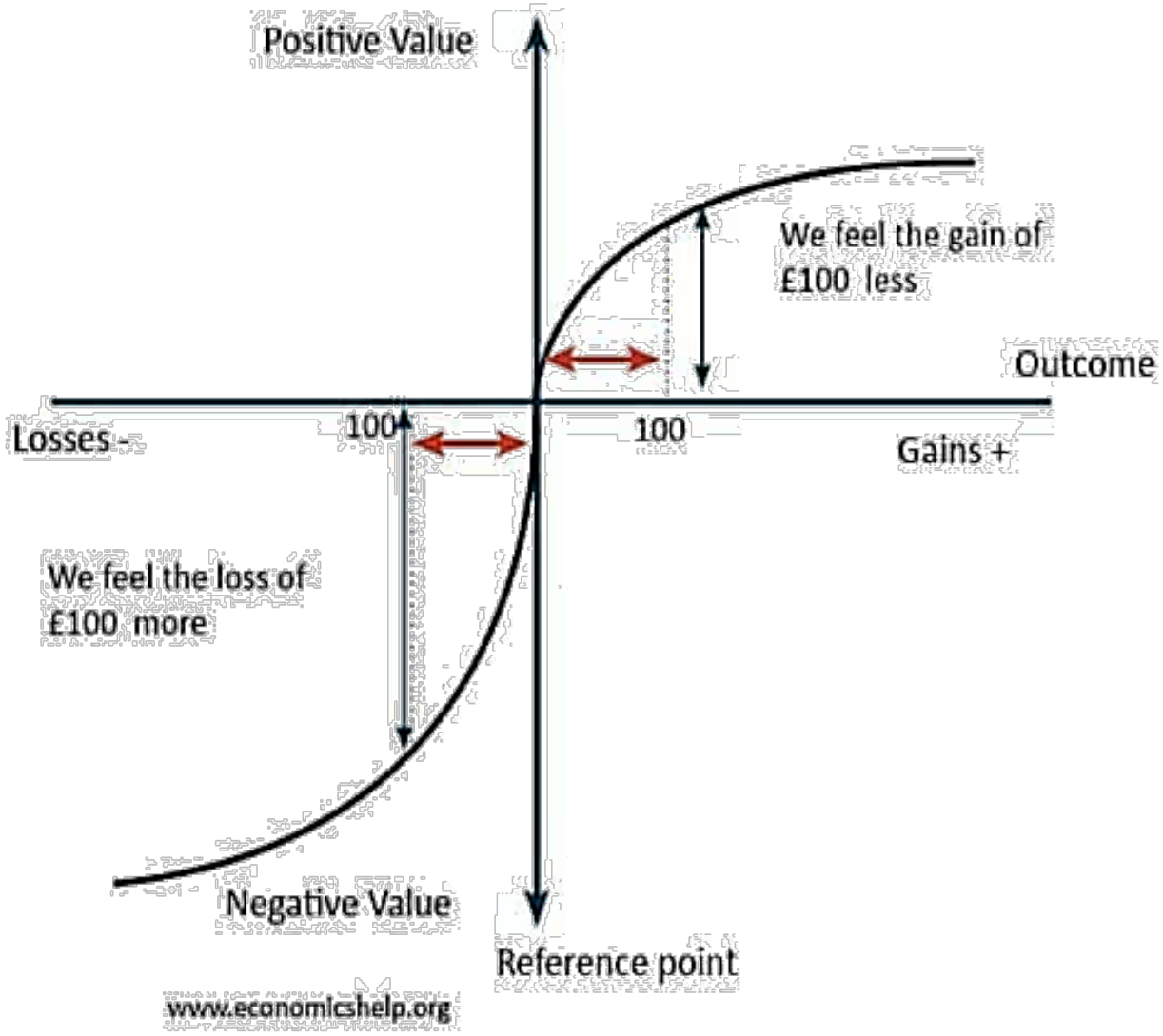


Cognitive Biases

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Behavioral Economics

- People are not rational decision makers!
- Prospect Theory
  - Potential losses are weighted heavier than potential gains
  - Value is relative and context dependent
  - Perception of probability is skewed
- Risk Aversion
  - Uncertainty Aversion
  - Loss Aversion
- System 1 vs System 2 Thinking
  - Cognitive Shortcuts
  - Heuristics
  - Biases



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Cognitive and Behavioral Biases

- Loss Aversion
- Availability Bias
- Recency Bias
- Framing Effect
- Confirmation Bias
- Base Rate Neglect
- Optimism Bias
- Uniqueness Bias
- Planning Fallacy
- Hindsight Bias
- Escalation of Commitment/ Sunk Cost Fallacy

YOUR BRAIN PLAYS TRICKS ON YOU



Some Remedies

- Individual Calibration
- Reference Class Forecasting

REFERNCES:: Flyvbjerg, B. (2021) Top Ten Behavioral Biases in Project Management, Project Management Journal 52(6) 531-546. | Hubbard, D. (2020). The Failure of Risk Management and How to Fix It. Wiley & Sons, Inc. | Kahneman, D. (2011) Thinking: Fast and Slow. Farrar, Straus, and Giroux.

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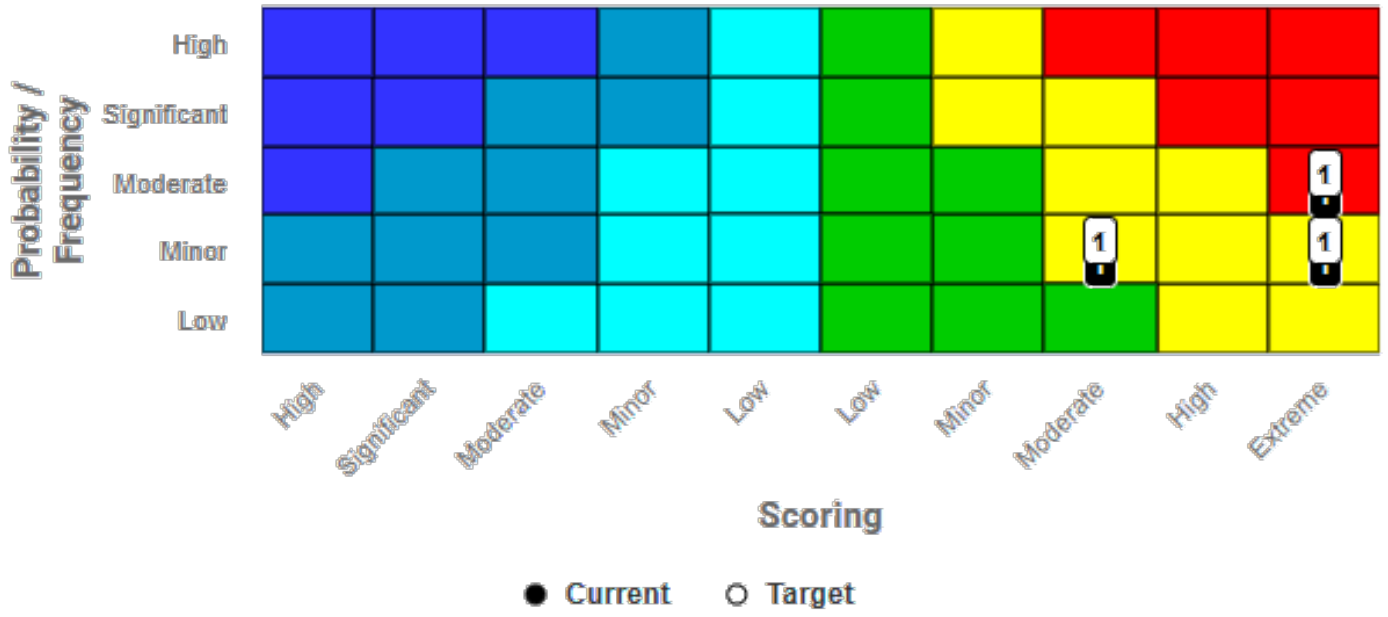


Residual Risk Governance

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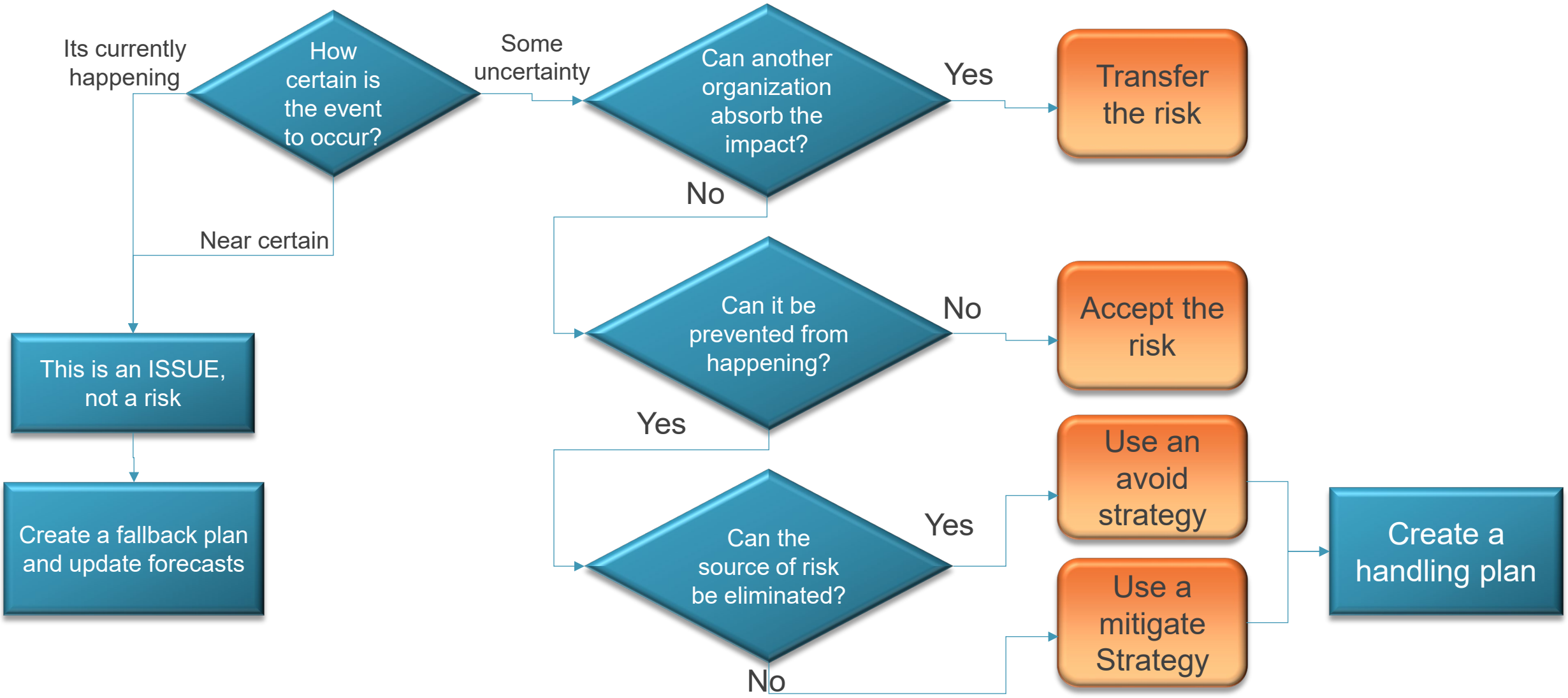
Laissez Faire Risk Handling

- Analysis Paralysis and Analysis Placebo
- Subjective/Biased Scoring
- Proactive/Reactive Activity Imbalance
- Default to Mitigation



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Handling Uncertainty: A Heuristic



QUESTIONS

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THANK YOU
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