



## RISK DOCTOR BRIEFING

### RISK ESCALATION – A NEW STRATEGY

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Risk response strategies help us to focus our risk treatment efforts. With a small number of strategy options to choose between, deciding on a preferred strategy allows us to concentrate on developing specific actions to implement that strategy and manage the risk in the desired way.

Early on, when risk management was limited to addressing threats, we had four alternative strategies: **Avoid** (remove the threat completely), **Transfer** (find a third party who can manage the threat on our behalf), **Reduce** (make the probability and/or impact smaller), and **Accept** (take no proactive action, but prepare a contingency plan in case the threat occurs).

Later, when we realised that risk includes both threats and opportunities, four matching strategies were developed for opportunities: **Exploit** (ensure that the opportunity definitely occurs), **Share** (involve a third party in managing the opportunity), **Enhance** (increase the probability and/or impact), and **Accept** (no proactive action, but a contingency plan in case the opportunity occurs).

Recently an additional risk response strategy has been defined, which we can use if we identify a risk that does not affect our objectives, but that could affect some other part of the organisation. In these cases, it is important that the risk is passed on to the right owner to ensure that it is recognised, understood and managed appropriately. The risk response strategy that achieves this aim is **Escalate**.

To make risk escalation work, we need clear thresholds between the different levels in the organisation, so that everyone knows where each risk belongs, without confusion or ambiguity. Regardless of where a risk is identified, it needs to be managed at the right level, and this is defined by measurable thresholds based on the objectives which would be affected if the risk occurred. These thresholds can be expressed as financial impact, safety implications, regulatory compliance etc., and a risk is escalated to a higher level if its impact exceeds a threshold value.

Risks can be escalated from any level in an organisation to a higher level, but it is perhaps most useful for risks identified in projects. In a project risk context, risk escalation is used when a project team identifies a risk that does not belong within the scope of their project, because it would not affect any project objective, but it could affect someone else. This means it is not a project risk, so they could just forget about it, and hope that the right person will also find it. Clearly this is not a good idea, as the relevant person may never find the risk. Instead, risk escalation is used to pass the risk to the person or party who would be affected if the risk happened. This is true for both threats and opportunities.

Here are some examples of risk escalation in practice:

- During a design review meeting, the project team discovers that the design contractor may be taken over by a competitor. It is too late for this to have any effect on their project, but it might affect other projects who use this contractor in future. The threat is escalated to the procurement department so they can decide how to manage it for future projects.
- Informal discussions with team members reveal widespread dissatisfaction with pay, terms and conditions among staff across the company. The threat is escalated to the HR department.
- The client tells the project manager that they are considering adapting the product for a different market, and asks if we are interested in bidding for the work. The opportunity is escalated to the project sponsor.
- A team member identifies an opportunity to create a new value stream for the business. This opportunity is escalated for senior management attention.

Having identified the right level to which the risk should be escalated, the project manager needs to communicate the risk to the new risk owner and ensure that they actively accept responsibility for its management. At this point the risk can be removed from the project's active Risk Register, and it will be entered into the Risk Register at the level where it belongs.

**Risk escalation** is an important addition to our set of risk response strategy options, as it ensures that each risk is managed where it matters, and owned by the people who would be affected if it happened.