

Where there are people, there are relationships.



Projects are not only technical systems but also social systems, and both are important causes of uncertainty. Relational risk is about the high levels of social system uncertainty that can occur when a Pharmaceutical Company (pharma), a Clinical Research Organisation (CRO) and other sub-contractors and stakeholders unite to deliver projects. The well-established concept of project risk – where risk is considered as both a threat and an opportunity – also applies to relational risk management; however, the focus is on addressing uncertainty regarding the collaborative relationships between the organisations within the project coalition, rather than on the likelihood and consequence of individual events occurring. **How can we influence relationships so people work in tandem?**

This focus does not replace traditional risk management; rather, it enhances the risk management of infrastructure projects.

Agency theory, which explains how relationships work in situations where a Principal-Agent (P-A) relationship exists, is a useful way to view relational risk. When a Principal (a pharma) engages an Agent (a CRO) to undertake a service, often by letting a formal contract, it delegates a level of authority to the Agent to make decisions on the Principal's behalf. Other P-A relationships also exist between different firms in the supply chain. Dysfunctional P-A relationships can manifest in various ways, including opportunistic or selfish behaviour, disproportionately allocating risks or responsibilities, and failing to share crucial information – all of which are of detriment to the project.

Such problems can **obstruct the forming and functioning of the project coalition's** social system. This leads to a lack of trust between the parties and is a major source of relational risk. Despite the wealth of literature on how agency problems hinder project delivery, understanding the sources of relational risk, such as agency problems in P-A relationships, and implementing mitigation strategies to address them is key to ensuring effective delivery.

There is a way forward...

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This includes:

- Recognition of mutual benefits to achieve a win-win outcome and the sharing of risks (both threats and opportunities) with an open and transparent model of compensation
- Greater interdependence between parties, leading to collaborative working
- Bilateral or unified governance structures
- The development of a learning

culture, including the sharing of explicit and tacit knowledge

- Investment in people through education, training and skills development
- Rich interactions between the parties
- Fostering and recognising the value of innovation, collaborative working, problem solving and creativity.

Our research has identified five main areas where we can make a significant impact in managing relational risk: together they have created the CURED Framework:



The concept of the CURED Framework is based on academic research, experience and practice – such as the use of a relational contract (NEC3) in the construction of the UK's 2012 Olympic venues, which was reported as being the most important factor in the success of the project...