

# Project Risk Management

**And why it's good for you**

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## Why Risk Management?

Risk is a fact of life. We would be hard pressed to think of any part of life that is truly risk free. As people we learn, almost from birth, that life is risky, learning how to manage it as we grow up. Our biology gives us tools that help us to do this automatically, and as we learn, we add our own experience and conscious actions.

Risk is also a fact of project life. All projects have risk. If it were not so, then we might be forgiven for thinking that if only we make the right plans, all of our projects will succeed. The fact that even well-planned projects do indeed fail is evidence enough that risk can trip us up. However, as in life, we are not just helpless victims of risk, and we can do something about it. This is the basis of project risk management, and it is what we will examine in this article.

We will look later at the benefits of managing project risk, but the best reason to do so because it works – it really does make projects more likely to achieve their goals, and there is a strong correlation between good risk management and project success.

Conversely, projects that ignore risk or manage it poorly are highly likely to fail.

The good news is that project risk management tends to be common sense. Basically, it is a process of thinking about what could happen, before it happens, and then planning actions so that we can avoid or minimise any threats and capture or enhance any opportunities.

## A Definition of Risk

The way we understand risk may be different for different groups of people, in different situations and perhaps in different sectors, applications or cultures. Therefore, it's useful to set a common definition for what we mean by risk and some related terms, so that we can all start from the same point.

One way to define risk is as follows:

- “An uncertain event or condition which if occurs would have an effect on one or more project objectives”.

Note that a risk can be:

- negative (a “threat”) with a negative effect on a project objective

or

- positive (an “opportunity”) with a positive effect on a project objective.

We also need to distinguish between risk events and risk as it affects the project as a whole. We can define a risk event as,

- “An individual uncertainty, which can be identified, assessed and managed through the risk management process”

and can we say that project risk is,

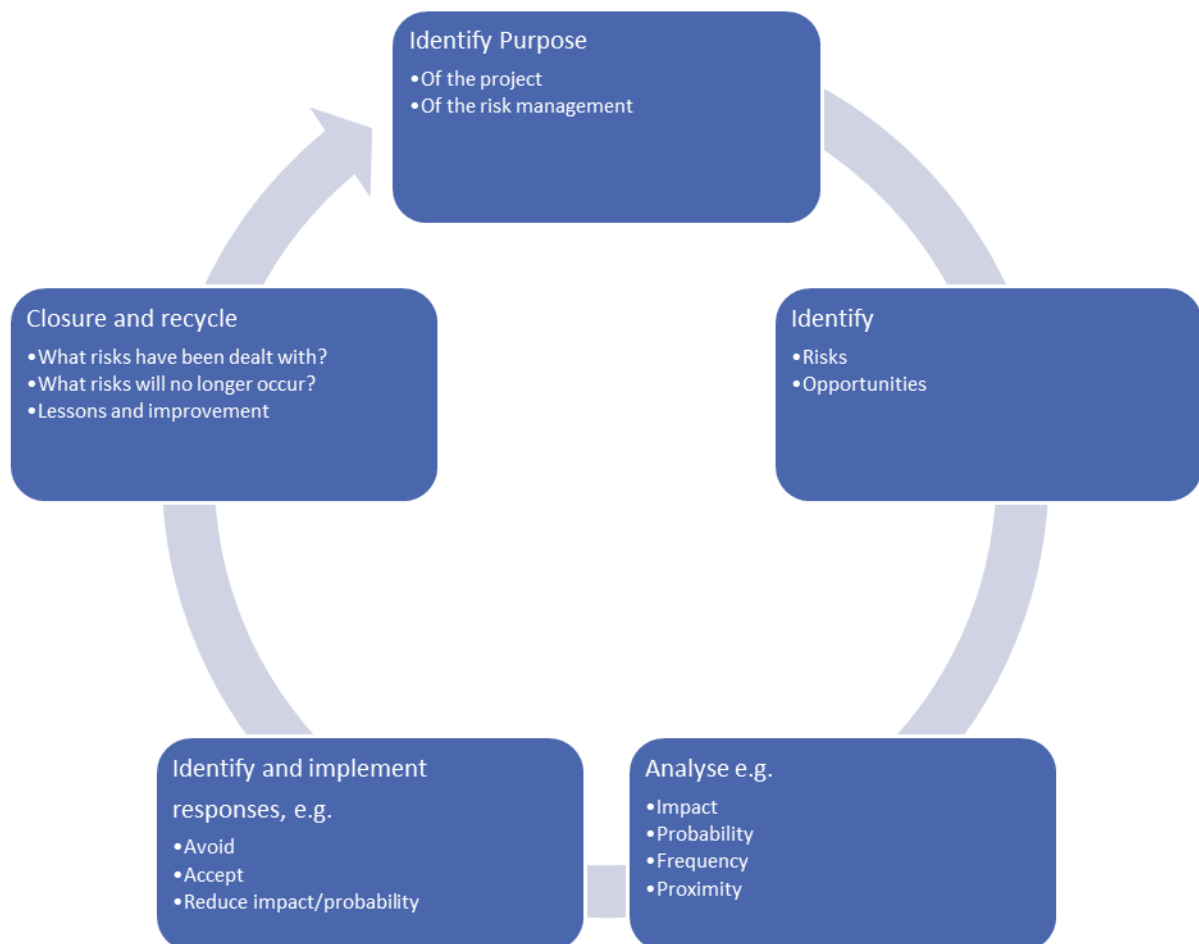
- “The joint effect of risk events and other sources of uncertainty” on a project or “the exposure of stakeholders to the consequences of variations in outcome” of a project.

## A Definition of Project Risk Management

Moving on from terms relating to risk itself, we can also define what we mean by risk management, which is:

“The process by where project risk is understood and responses to the risk events are formulated, justified, planned, initiated, progressed, monitored, measured for success, reviewed, adjusted and closed”.

Of course, it won't surprise you to learn that good risk management involves a process. Although everyone's process is slightly different, the key steps are usually the same and based upon those shown below:



This is a continuous process, cycling as long as the project lasts, and maintained until the project completes.

## Why Managing Project Risk is Good for You

Given our goal of enabling more successful projects, we can identify some specific benefits that arise from managing risk well, a selection of which are given below.

Benefits can be termed either “hard” or “soft”, where hard benefits tend to be:

- Explicit
- More easily measurable

And soft benefits tend to be:

- Less obvious
- Harder to measure
- Implicit in some of the hard benefits

The hard benefits of good project risk management include the following.

- Producing better, more reliable plans, schedules and budgets, which in turn increase our likelihood of achieving our scope, time and cost targets.
- Improving our choice of contract, the terms that we are able negotiate and our ability to execute whatever agreement is reached.
- Improving our assessment of the contingency amounts that we need to set aside to deal with uncertainties, and also our effectiveness in allocating these to the situations as they arise.
- Giving us ongoing data that helps us to improve the performance of future projects, not only to stop repeating past mistakes, but also to make good situations even better.
- If applied at an early stage, helping us in our choice of projects, so that we can select the best projects from those that compete for approval, partly because we can compare them more objectively, and particularly from a comparison of project risk. This also reduces our chances of approving weak projects or those that fall outside our tolerances.
- Helping us to allocate individual risks to the party best able to deal with them, thus promoting the best outcome.

The soft benefits that come from good risk management include the following.

- Gaining better corporate understanding, not only of the risk involved in each project, but also of risk more generally. We become more able and more comfortable in dealing with risk, which in turn helps us to make better decisions.
- Developing a common understanding of, language around and ways to handle risk, therefore promoting better team cohesion.
- Distinguishing between success that is due to good luck and success that is due to good management. This means that we can build on the good practice and eliminate the poor practice.

- Improving the ability of project (and other) personnel to assess and deal with risk, which aids not only the project but also their own personal development.

We can also identify some further benefits of using project risk management.

Projects must deal with a myriad of problems, and we don't have time or resource to give them all equal priority or urgent attention. Good risk management will focus project management attention on the more important ones.

It is often true that greater return comes with greater risk. As we get better at risk management, it may be that we can take greater risks, thus improving returns and identifying better where the limits of this are for us.

Finally, good risk management can improve a project's reputation for responsibility and prudence, and also help to build team morale.

## **Critical Success Factors for Project Risk Management**

A critical success factor (or CSF) is something that, when in place, increases the chances of achieving the desired result.

Therefore, a CSF for project risk management would be something that, when in place, increases the chances of managing project risk successfully.

CSFs for project risk management include the following:

- Good information – if we have accurate, current, relevant, and regular review and update of our risk information, we will be better able to manage our project risk.
- Good project definition – if our project is well defined (and also well managed in other respects), we can better tailor our risk management activities to its need. The better we know the project's purpose, the better we can do this. Essentially, if we want to manage risk on a project, we need to be able to give a good answer to the question, "a risk to what?".
- Good ownership – in most cases, the project manager (PM) is ultimately accountable for good risk project management, and if the PM retains interest, responsibility and involvement, then this will increase the likelihood of success. Additionally, understanding, support and

ownership from organisational management, particularly the project sponsor, is very important.



- Good risk culture – if the project (and preferably the organisation) has a good risk culture, then it will enable a focus on risk, not just progress or cost. A good risk culture will understand and support the importance of risk management and keep it visible.
- Good support – if the project (and again, preferably the organisation) supports the discipline of risk management, then this will go a good way to enabling success. Support can take many forms, including, training, tools, management advocacy and good communication
- Enough time – there is never enough time on projects, and the temptation is to focus on “just getting things done”. However, if the project realises the importance and benefits of good risk management, then it will allow enough time and resource to do it properly.
- Early engagement – starting to deal with risk is particularly important in the early “front end” stages of a project (ideally even earlier) where the key decisions are made, and on which hang the fate of the whole project. In fact, if you don’t do this here, it can deal a fatal blow to the project from the start.
- Amenable process – if the risk management process used by the project is poor, or clumsy, or irritating or hard to understand, then it will not be used to its best advantage and may well not be used at all. We also need to ensure that the process is actually being used, so we should implement adequate quality assurance on the process and its use.

We hope that in this short article, we have helped to clarify what project risk management is all about, and why it’s an essential factor in achieving project success.

# P P P M Project Management Services LLC

P P P M Project Management Services LLC has been delivering projects for many years. We are also letting others into the secret, by helping them to do their projects better. Our services range from traditional consulting, where we advise and support an organisation on its project process; review projects at all stages of delivery, where we suggest improvement or recovery actions; training, mentoring and coaching, where we empower your workforce; through to providing experienced personnel to manage projects directly. Our clients span sectors and reach across the globe. We have advised at many levels within these organisations and try to ensure that our services are a fit to the needs of our clients. Contact us now to discuss your project management needs.



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