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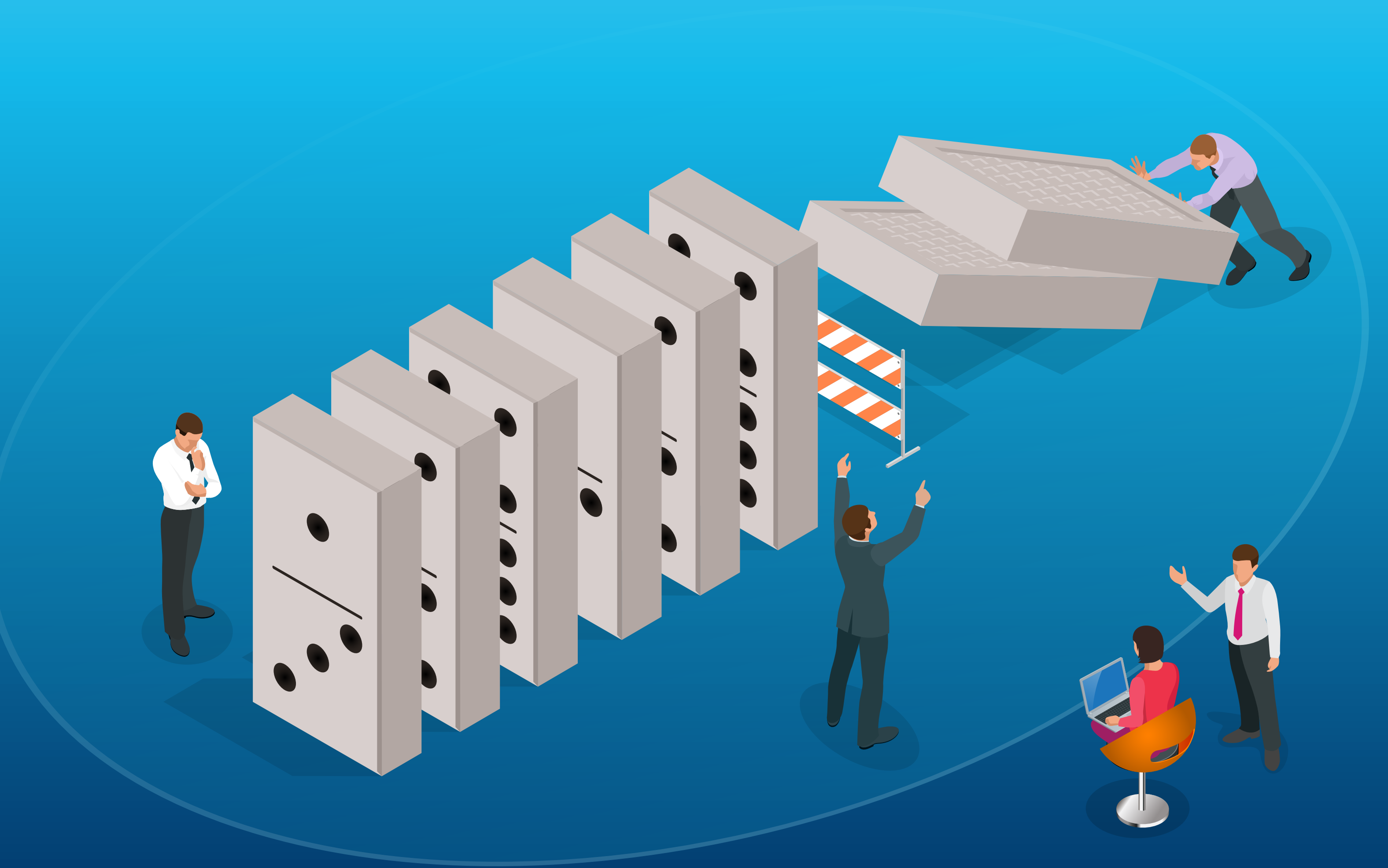
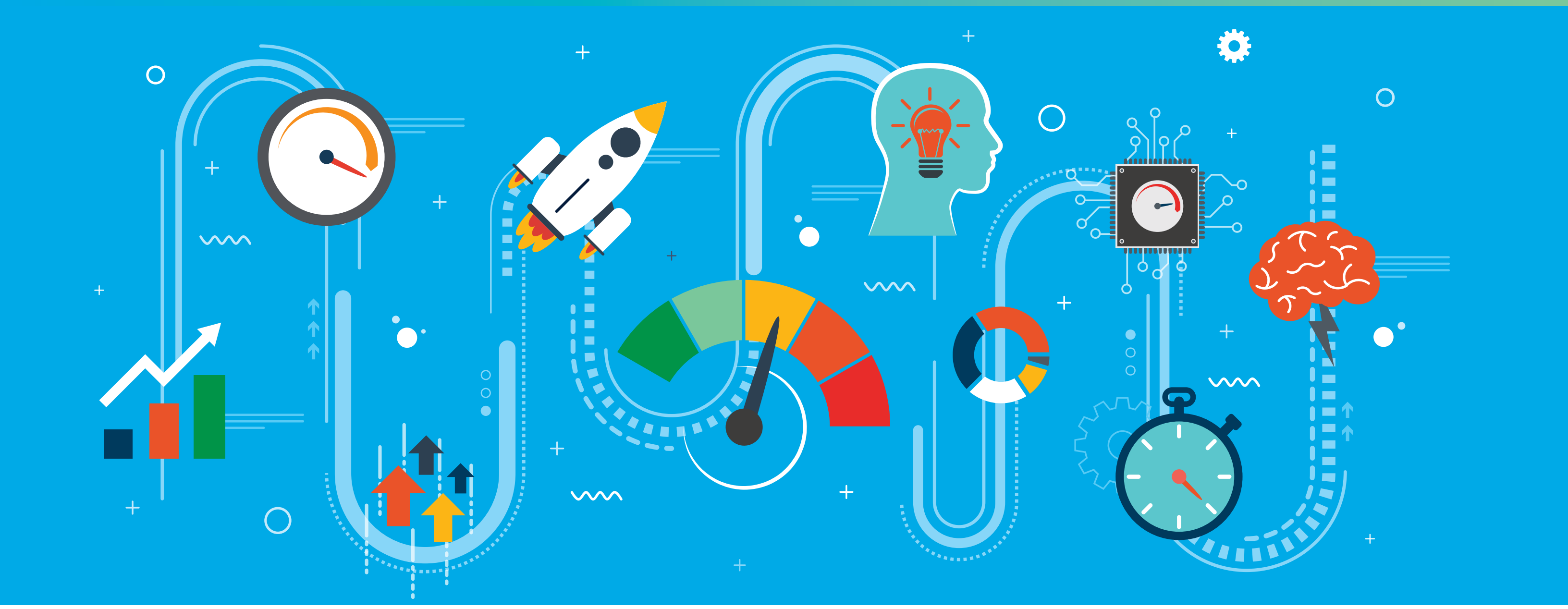
Ineffective Risk Management — That's Risky!





According to PMI's 2018 *Pulse of the Profession®* report, **9.9% of every dollar spent on projects is wasted.** That's a scary number, and it's not improving significantly from previous versions of the report. Perhaps even more alarming is that the same report showed the best performers waste 21 times less money than the worst performers. That's a pretty telling statistic and it illustrates just how important effective project management approaches can be. Few elements of project management contribute more to that improvement than risk management. After all, it's the element of project management specifically geared to dealing with uncertainty. It's an aspect of project delivery that everyone can contribute to, and it delivers immediate benefits. So why aren't you better at it?

No, seriously. Think about how your projects are managed. Risk management is frequently an afterthought, something the project manager and team pay lip service to, developing a basic risk register at the start of the project and then largely ignoring it. And you wonder why 9.9% of every dollar invested is wasted – and that's assuming you are no worse than average. It's time to change things, and in this paper, we provide a practical approach to achieving exactly that.

LET'S START WITH THE BASICS

We have to begin by understanding the fundamentals. From a mechanical standpoint, you understand risk management involves identifying risks; assessing those risks for impact, likelihood of occurring, and perhaps ability to recover; and then developing management strategies based on one of the four basic approaches (mitigate, eliminate, transfer or accept). You also understand that things change over time so you need to review those risks on a regular basis. But those aren't the fundamentals we're referring to, there are other basic elements of risk management that impact your ability to practice it effectively, and that's where we need to start.

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The first fundamental is something that should be obvious. Risk management requires an investment. From a financial standpoint you need to identify management and contingency reserves to act as budget 'shock absorbers' when risks trigger. In this way the project can continue to deliver without impacting the core budget. Similarly, there should be time reserves to absorb potential schedule delays caused by those risks. But those are passive investments – reserves made available if required. There must also be active investments.

Project managers (PMs) and teams must be encouraged to invest as much time as is required into managing risks effectively – not just in the early planning stages of the project, but every day. It's impossible to define parameters for how much time and effort is needed because it will vary considerably depending on the size and complexity of the project, as well as the initiative's unique risk tolerance. But risk management should be one of the first allocations of time and energy. If it isn't, then all the best practices in the world, all the training, all the careful recruitment of skilled individuals, will be for naught. Your project will become a complete gamble because your risk management strategy is one of hoping things will work out.

Achieving this level of performance requires an effective risk management infrastructure. Project managers must be given an environment where risk management is important, where the culture embraces risk management, not one that creates barriers to it through conflicting priorities. That infrastructure must manifest itself in a number of different ways:

- **Consideration of risk as one of the characteristics that is used to approve and define projects.** What is the risk profile of the project – type of risk, amount of risk, distribution of risk, etc? Also, what is the tolerance for risk – is this a project that is conservative or aggressive, and how does that impact our willingness to embrace risk?

- **Integration of risk management into all other project processes.** Risk management shouldn't be a standalone process used by the organization, and risk registers, plans, analyses, etc. shouldn't be standalone templates. Instead, risk management should be an integral part of how the project is planned, managed and adjusted. Every decision should consider the impact on risks – positive and negative, every change should include risk impact assessments, and every challenge encountered should be recognized as having the potential to impact risks.

- **Formal support for risk management.** Sponsors, stakeholders, the project management office (PMO) and similar roles are critical to helping a project succeed. Ensuring risk management is effective and efficient must be part of that support whether that's through expertise, information or other appropriate means.

- **Data management.** Modern software solutions for project management are extremely powerful. Organizations must integrate those solutions with other enterprise platforms and leverage them effectively to ensure that complete, accurate and contextualized data is always available to PMs to support risk management. That's not just information on identified risks from previous projects, it includes financial and time-based impact analysis, cost assessments for management strategies, impact assessments and 'what if' analyses for risk planning, etc.

If these elements have one thing in common it's that they all assume improved context. Traditional project risk management was focused on process driven approaches that treated risks in a relative vacuum. Risk was identified, assessed, prioritized and managed only within the confines of the project. Today, risk management must focus on 'why'. Why is it important to do this project, why now, and why in this way? The answers to those questions will help the PM and team understand the business outcomes their project is expected to enable, and that in turn will result in more effective risk management. That leads to the next consideration for risk management – the different project delivery environment in which organizations function.

BEST PRACTICES IN THE MODERN WORLD

Today's project delivery environment is changing. The PMI *Pulse of the Profession* report referenced above showed that **46% of respondents had used Agile or hybrid Agile at some point** within the previous 12 months. And the 12th edition of VersionOne's State of Agile report reported that **37% of organizations cited reduced risk as a reason for adopting Agile**.

At the same time, regardless of industry, location or business model, organizations are finding they must deliver better solutions faster if they are to remain competitive. It's pretty clear project delivery has to become more streamlined, and risk management has to be a part of that. And, it has to be more effective than ever before because customers are unforgiving when it comes to failed projects.

In this environment effective risk management requires three core principles – and those principles apply across all project delivery approaches and for all stakeholders – from senior executive to junior team member. Those principles are:

- Active risk management
- Evolving risk management
- Comprehensive risk accountability

Let's look at each of those in turn.

Active risk management is more than simply reviewing risks on a regular basis. It is a mindset and philosophy that requires all risks be fully understood – what is the real situation, how are you improving things through your management actions, why is this risk being managed, what will the impact to the project and business be if the risk triggers, and how do you minimize that impact and recover? Only when you fully understand this complete picture can you be effective in ensuring the right response strategies are put in place. You must also recognize that sometimes the right strategy is to do nothing. Not every risk can, or should, be actively managed.

Every action you take on every project has the potential to impact risks, the management of those risks, and the implications of triggering. In the modern project environment unless every member of every team is closely aligned in actively monitoring and managing those risks you will quickly lose sight of what is happening. You also have to consider that the risks themselves are not stable, and that leads to the next principle.

Evolving risk management is the recognition that risks are no different from any other element of modern project delivery – they are in a state of continuous change. Just as you expect your project constraints to evolve in order to remain aligned with your business goals, so you should expect your risk management to evolve for the same reasons. Traditionally you would look for changes in risks themselves – shifts in their impacts or likelihood to trigger, but that's not enough today. You must also consider whether your management approach decisions are still appropriate, and you should expect to stop management of some risks and resume management of others over time because of that shifting environment.

At times that change will have nothing to do with an individual project. Consider for example an organization that finds itself under pressure to deliver on revenue goals because of competitor actions. The decision may be taken to become more aggressive in the delivery of revenue focused projects – adding features and seeking to deliver more quickly. That is likely to not only lead to increased risk, but also greater risk tolerance – the organization is prepared to accept less management of risks in order to focus more energy on completing work. In today's world these external factors play a big role in evolving risk management approaches.

Both of these principles are important, but they can only succeed when the third one is in place – **comprehensive accountability**. The concept of a single risk owner cannot survive in today's world. There may be an individual appointed to administer and track each risk, but accountability for effective risk management must belong to every team member and stakeholder. Ensuring each risk, and the entire project, is being managed effectively when it comes to risks is an essential part of everyone's role. Every team member should consider the impact on risks of every action they take; every PM should ensure risks are remaining within tolerances when they make adjustments; every sponsor should consider risks when making decisions.

That's not just about reducing or eliminating risks either. Risk management can be too conservative and it is up to every project stakeholder to recognize when management is being too aggressive and to make adjustments.

Combined, these principles help embed risk management into the fundamentals of what constitutes a successful project delivery, and that's how it needs to be. When projects are delivered through both traditional and Agile methodologies, and with the increasing use of hybrid approaches that make every project somewhat unique, risk management cannot simply be an overlaid process. Instead it must be an essential part of the project, and that means it must be an integral part of how everyone working on that project thinks and acts.

CREATING AN EFFECTIVE, MODERN RISK MANAGEMENT ENVIRONMENT

The theory is fine, but how can you make it happen? It's not as difficult as you might think because it leverages much of the existing skills and capabilities of your people. But it does require an environmental and cultural shift. At the core is the need for everyone involved in project delivery to understand the reasoning and context for why the project is being done. That's not only beneficial for effective risk management, it's an increasingly important part of allowing projects to deliver effective business outcomes, and it is critical to success. Projects cannot simply be approved by executives and then passed along to the PM by a sponsor with just the most rudimentary handoff.

Instead the PM must be a fundamental part of the planning and approval process, allowing him or her to understand the business drivers for the work, the variables that have the most impact on the ability to achieve those objectives, and the flexibility available in managing the project to ensure the outcomes are met. Only then can the PM effectively guide the project and develop a team focused not on delivering on time, scope and budget; but on benefit – achieving the goals for which the project was approved. And of course, effective risk management is critical if that is to happen.

Risk management must also begin earlier in the process. The planning and selection process cannot ignore risk, either when determining the acceptable level of risk for each project, or in understanding the nature and extent of the risks being accepted when a project is approved. When risk identification doesn't occur until after the project starts, the organization lacks a complete understanding of the ability to deliver the needed business outcomes, increasing the likelihood of failure.

Finally, the project delivery environment must be built on a stable, strong platform that integrates risk management. Increasingly, every project is being managed slightly differently because of a combination of shifting goals, an ever-changing organizational operating environment and hybrid project delivery approaches. In that environment a strong foundation is critical. That must include clarity of roles, autonomy of action and, critically, complete, reliable information. Organizations must invest in effective project management software solutions, integrate those solutions into their organizations and use them effectively. Those platforms must have timely and accurate data that can be converted into actionable information by empowered, skilled practitioners. When it comes to risk, that's not just historic data but also the ability to monitor the effectiveness of current activities, to alert when tolerances are broken, and to support effective, collaborative management.

THE BOTTOM LINE

Risk management has never been more important. Projects are under more pressure to deliver, and the costs of failure are higher than they have ever been. The world you operate in today has never been more challenging, with pressures coming from all directions at all times. However, good project fundamentals are still the foundation of success. PMI's *Pulse of the Profession* report, cited at the start of this paper, shows that clearly with the comparison of money wasted by the best and worst performers. Risk management is at the heart of those project fundamentals, and you likely have room for improvement.

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