

Some simple steps to excellence in handling of project risk

By Simon Harris

I've audited a number of projects that were under stress from factors where the participants happily declared: 'Oh yes that is in our risk log'. Each time this happens it makes me wonder if people believe that some deity reads and responds to their risk log's contents.

'Threats in the log and out of mind' is a common attitude that must be addressed if we desire excellence in risk control. However the beginning and end of risk, the alpha and omega, is identification of the components of risks.

All event and response detection is conducted by the subconscious mind and that is by definition outside our direct, conscious control. If I say 'imagine castles and ice-cream' where is your conscious mind transported? To a beach on a summer's day making sandcastles with your parents, or as a parent with your own toddler, or a visit to a mediaeval ruin?

Feelings are a tough topic

Handling threat and opportunity is tough because

- 1) it starts in and is evaluated by feelings generated in the sub-conscious mind
- 2) business or corporate life isn't open to the idea of running on feelings
- 3) few of us work in teams with enough social fabric to share our true feelings and
- 4) our feelings are not symmetrical in our responses to threat and opportunity.

Appreciation of the threat and opportunity management process is easily improved by better understanding of the concepts and consistent use of good vocabulary to express them.

Lets us start with an attempt at clarity: in a project context 'Risk' is a topic. The word refers to 'uncertainty of outcome'. Outcomes come in two flavours: positive (opportunity) and negative (threat). This is in contrast to daily life where risk is normally used exclusively to mean an undesirable outcome.

It is my view that we lack excellence because common risk treatises, such as OGC's

Management of Risk extend the definition of risk (appropriately) but fail to think through the implications: their circulation outweighs their insight.

Most 'text-books' propagate a stilted description of risk management such as single trigger, single outcome, single owner which isn't real-world.

Where in 'serious treatment of risk' have you read phrases like 'a mixed blessing' and where in reality do we escape compound outcomes?

Thus in general we are exposed to a description of risk management that misses concepts, muddles vocabulary, makes wrong assertions (like each risk has a single owner) and only pays lip-service to the key concepts. This last point is illustrated by common threat only definitions of 'Residual risk' and use of the threat-oriented word 'mitigate'. Mitigate means 'reduce' but I do not want to mitigate opportunity, only threat. Mitigate might be OK for 'daily-life risk' but not the 'extended definition project risk'.

Perhaps if talking of 'uncertainty of outcome whether positive or negative' the correct word is 'militate', meaning 'have effect on'. I know of no word whose definition is spot-on. That in itself shows we are poorly equipped to handle the concepts.

Ensure risks are well described

Risks must be well described if they are to travel from one sub-conscious to the rest of the stakeholders' conscious analytical thinking and receive an appropriate emotional consideration.

A well-defined risk includes CAUSES (plural). The definition also includes a future state, which is conditional on the causes. Often the state may occur from any one of a number of causes in isolation and/or from some combination.

A well-described risk also needs its CONSEQUENCES (also plural) spelt out as evaluated by each stakeholder's feelings towards the collection of outcomes.

Most risks start as ill-defined things

Since risks start in the sub-conscious, they do not 'arrive' fully formed. 'We may be late' is an incomplete risk, but a perfectly good fragment of one. It is a future state and needs analysis for all the potential causes and all the consequences for all stakeholders: for example, as a freelance contractor a project running late is an opportunity not threat. 'Some other priority project may steal our people' is likewise a cause whose consequences need analysis.

SOOP*: Never insist on people raising complete risks: it chokes off the supply.

SOOP: If an event affects multiple people, there are multiple opinions of the outcomes, potentially leading to many 'outcome owners': not one mythical 'risk-owner' as probably every source of guidance I've seen suggests.

Assemble the risk description fragments

Every project stakeholder should be encouraged to raise whatever fragments of threat and opportunity they perceive. Whatever is raised should be recorded in the risk log. Logging is not a guarantee of further action!

Risks should (must?) not move forward in the management process until they are well described. Quality number one is therefore that 'well-described' means the future state has as complete a set of triggers and impacts as our sub-conscious minds can bubble-up for us.

Assess on ordinal scales

Risks should be assessed against ordinal scales in every dimension of interest to the project's stakeholders.

I challenge anyone to put a meaningful percentage against 99% of project risk probabilities, or a value to the impact of 'staff member injured', 'deliver early' or even 'less work than expected saves money'.

It isn't impossible, but what is commonly

recorded often has no more meaningful audit trail than 'We guessed'. Further, the calculation of a numeric probability of a condition with multiple independent causes, even if quantifiable, is beyond most people's arithmetic ability and the result of the calculation rarely conveys any visceral meaning.

An example assessment scale or two

What is assessable might be a probability against a scale such as: 'Never heard of it'; 'Not in our shared experience'; 'As likely as not'; 'It has happened to me or colleagues'; 'Just a matter of time.

Impact scales must be created in each of the dimensions of constraint, eg 'death of a staff member'; non recoverable injury'; 'recoverable injury'; 'reportable day away'; 'scare/near miss'; 'Pleasurable'; 'Life enhancing experience' or, on the financial side, 'Windfall profit that changes share price'; 'Earns employees a bonus'; 'Within PM's authorised contingencies'; 'Within sponsor's authority to approve'; 'Requires re-visit to funding authority'; 'Requires shareholders/parliamentary approval'; 'Bankrupts division'; 'Bankrupts company'; 'Bankrupts country'.

Scales should be reviewed at stage gates: a two week delay discovered at the start of a 26 week project is of different significance to one found when we only have eight weeks left!

Aggregate assessment

The assessment of where a risk is located against our preferences and prejudices is a complicated equation. The result must include consideration of the 'raw' probability of all causes, the consideration of all consequences as seen by all significant stakeholders in all project dimensions of constraint, and the change in the score after any potential responses are taken to any risk, not just this one. Risks interact so responses must be considered as a whole.

Two factors are interacting in this complexity:

- 1) a business case is really just a glorified entry in the corporate risk log on the opportunity side

and

- 2) all risk and opportunity responses whether project or business-as-usual are competing demands on the same resource pool or working capital.

Subjective utility of responses

Once well-described risks are characterised in their raw state and their potential militating responses have been generated by fresh use of the sub-conscious, then we may be able to make comparative assessments of the utility of each response.

Assessment balances the aggregate change in each stakeholders 'bottom line' from the total set of possible responses. Some responses

will be actions to affect probability, some actions will be preparation for post-event actions (preparing contingencies) and some actions will be the deployment of those contingent actions.

All responses that are aimed at changing probability or are preparation of contingencies must be scheduled, resourced and costed within the 'Plan-A' base line. Actions whose deployment is contingent upon the event should be in costed in 'Plan-B', but by definition cannot be scheduled until the event's probability becomes 1 or 0.

The aggregate of threats, opportunities and their militating event or outcome-oriented actions is the range of best-case to worst-case that should be used for ongoing investment appraisal. That is the sum of Plan-A plus Plan-B. They are the expression of uncertainty of benefit size and timings versus investment size and timing. (The screen-shots are from Simon's free and complete pdf of his 4-day course 'Using the full power of MSP including Earned Value'.)

Final simple step

The risk log is no place from which to manage risk: that place is on the one hand the business case, and on the other hand the day-to-day elements of the project plan that describes people's assigned tasks.

The risk log is the audit trail of how risk oriented actions found their way into the resourced schedule and a record of the currently unselected risk responses.

In summary

Risk handling happens naturally when you include the actions in the normal schedule of assigned tasks.

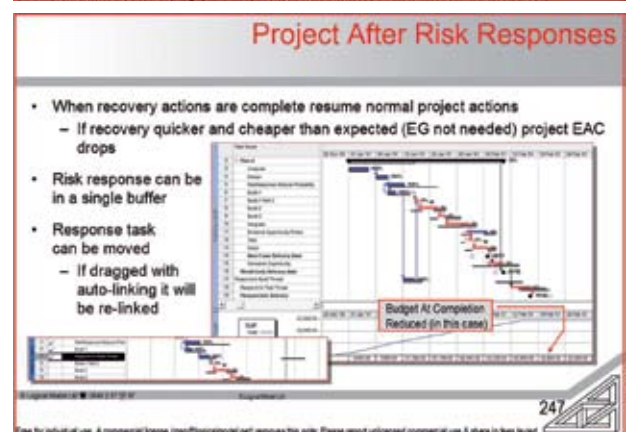
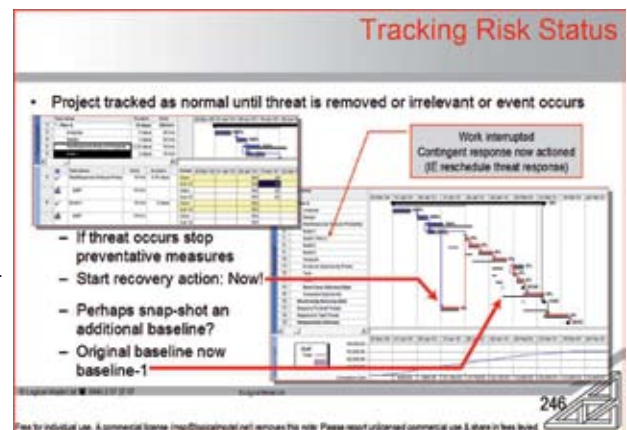
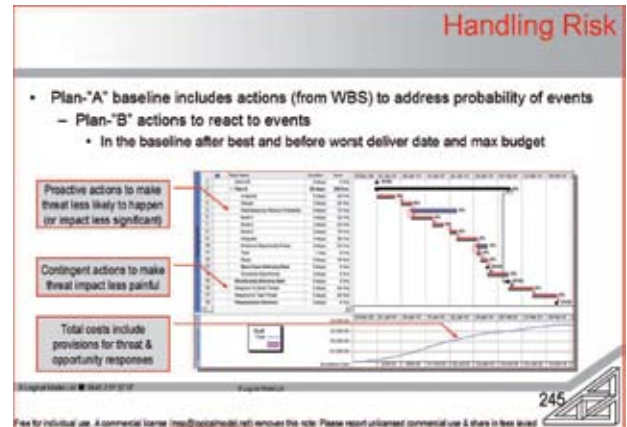
Improved risk handling comes from:

- Vocabulary that wholly encompasses the concepts of the topic
- Realizing that risk is a complex, subjective, ie, emotional topic, that takes time and teams if it is to be discussed realistically
- Use the sub-conscious to identify fragments that are assembled into cause, condition, consequence triplets together with all their possible responses
- Evaluate the full collection of potential responses in the context of the aggregate 'bottom-line' for all (significant?) stakeholders
- Merge the actions to deliver the project's outcome and the selected actions to handle uncertainty into a single budget and day-to-day schedule of resourced actions

- Recognize that all risk handling is ultimately paid for by the customer/sponsor and that every threat or opportunity response whether event or outcome directed has an owner

Hopefully the non-sequiters are now addressed!

**SOOP – Simon's Simple Observations on Projects*



About the Author

Simon Harris, PMP, CGEIT is a trainer, speaker and consultant on governance of change via project planning, tracking and control competencies. Simon's approach is to de-mystify project management. PM's place is as a normal part of any manager's abilities (like driving a car). Simon provides the PM specialists with industrial strength tools and insights into 'common sense' approaches to project management. See more at www.Logicalmodel.net. Simon can be contacted via 0845 2 57 57 07 or Simon@LogicalModel.Net