10 Golden Rules of Project Risk Management

By Bart Jutte

The benefits of risk management in projects are huge. You can gain a lot of money if you deal with uncertain project events in a proactive manner. The result will be that you minimise the impact of project threats and seize the opportunities that occur. This allows you to deliver your project on time, on budget and with the quality results your project sponsor demands. Also your team members will be much happier if they do not enter a "fire fighting" mode needed to repair the failures that could have been prevented.

This article gives you the 10 golden rules to apply risk management successfully in your project. They are based on personal experiences of the author who has been involved in projects for over 15 years. Also the big pile of literature available on the subject has been condensed in this article.

Rule 1: Make Risk Management Part of Your Project

The first rule is essential to the success of project risk management. If you don't truly embed risk management in your project, you can not reap the full benefits of this approach. You can encounter a number of faulty approaches in companies. Some projects use no approach whatsoever to risk management. They are either ignorant, running their first project or they are somehow confident that no risks will occur in their project (which of course will happen). Some people blindly trust the project manager, especially if he (usually it is a man) looks like a battered army veteran who has been in the trenches for the last two decades. Professional companies make risk management part of their day to day operations and include it in project meetings and the training of staff.

Rule 2: Identify Risks Early in Your Project

The first step in project risk management is to identify the risks that are present in your project. This requires an open mind set that focuses on future scenarios that may occur. Two main sources exist to identify risks, people and paper. People are your team members that each bring along their personal experiences and expertise. Other people to talk to are experts outside your project that have a track record with the type of project or work you are facing. They can reveal some booby traps you will encounter or some golden opportunities that may not have crossed your mind. Interviews and team sessions (risk brainstorming) are the common methods to discover the risks people know. Paper is a different story. Projects tend to generate a significant number of (electronic) documents that contain project risks. They may not always have that name, but someone who reads carefully (between the lines) will find them. The project plan, business case and resource planning are good starters. Another categories are old project plans, your company Intranet and specialised websites.

Are you able to identify all project risks before they occur? Probably not. However if you combine a number of different identification methods, you are likely to find the large majority. If you deal with them properly, you have enough time left for the unexpected risks that take place.

Rule 3: Communicate About Risks

Failed projects show that project managers in such projects were frequently unaware of the big hammer that was about to hit them. The frightening finding was that frequently someone of the project organisation actually did see that hammer, but didn't inform the project manager of its existence. If you don't want this to happen in your project, you better pay attention to risk communication.

A good approach is to consistently include risk communication in the tasks you carry out. If you have a team meeting, make project risks part of the default agenda (and not the final item on the list!). This shows risks are important to the project manager and gives team members a "natural moment" to discuss them and report new ones.

Another important line of communication is that of the project manager and project sponsor or principal. Focus your communication efforts on the big risks here and make sure you don't surprise the boss or the customer! Also take care that the sponsor makes decisions on the top risks, because usually some of them exceed the mandate of the project manager.

Rule 4: Consider Both Threats and Opportunities

Project risks have a negative connotation: they are the "bad guys" that can harm your project. However modern risk approaches also focus on positive risks, the project opportunities. These are the uncertain events that beneficial to your project and organisation. These "good guys" make your project faster, better and more profitable.

Unfortunately, lots of project teams struggle to cross the finish line, being overloaded with work that needs to be done quickly. This creates project dynamics where only negative risks matter (if the team considers any risks at all). Make sure you create some time to deal with the opportunities in your project, even if it is only half an hour. Chances are that you see a couple of opportunities with a high pay-off that don't require a big investment in time or resources.

Rule 5: Clarify Ownership Issues

Some project managers think they are done once they have created a list with risks. However this is only a starting point. The next step is to make clear who is responsible for what risk! Someone has to feel the heat if a risk is not taken care of properly. The trick is simple: assign a risk owner for each risk that you have found. The risk owner is the person in your team that has the responsibility to optimise this risk for the project. The effects are really positive. At first people usually feel uncomfortable that they are actually responsible for certain risks, but as time passes they will act and carry out tasks to decrease threats and enhance opportunities.

Ownership also exists on another level. If a project threat occurs, someone has to pay the bill. This sounds logical, but it is an issue you have to address before a risk occurs. Especially if different business units, departments and suppliers are involved in your project, it becomes important who bears the consequences and has to empty his wallet. An important side effect of clarifying the ownership of risk effects, is that line managers start to pay attention to a project, especially when a lot of money is at stake. The ownership issue is equally important with project opportunities. Fights over (unexpected) revenues can become a long-term pastime of management.

Rule 6: Prioritise Risks

A project manager once told me "I treat all risks equally." This makes project life really simple. However, it doesn't deliver the best results possible. Some risks have a higher impact than others. Therefore, you better spend your time on the risks that can cause the biggest losses and gains. Check if you have any showstoppers in your project that could derail your project. If so, these are your number 1 priority. The other risks can be prioritised on gut feeling or, more objectively, on a set of criteria. The criteria most project teams use is to consider the effects of a risk and the likelihood that it will occur. Whatever prioritisation measure you use, use it consistently and focus on the big risks.

Rule 7: Analyse Risks

Understanding the nature of a risk is a precondition for a good response. Therefore take some time to have a closer look at individual risks and don't jump to conclusions without knowing what a risk is about.

Risk analysis occurs at different levels. If you want to understand a risk at an individual level it is most fruitful to think about the effects that it has and the causes that can make it happen. Looking at the effects, you can describe what effects take place immediately after a risk occurs and what effects happen as a result of the primary effects or because time elapses. A more detailed analysis may show the order of magnitude effect in a certain effect category like costs, lead time or product quality. Another angle to look at risks, is to focus on the events that precede a risk occurrence, the risk causes. List the different causes and the circumstances that decrease or increase the likelihood.

Another level of risk analysis is investigate the entire project. Each project manager needs to answer the usual questions about the total budget needed or the date the project will finish. If you take risks into account, you can do a simulation to show your project sponsor how likely it is that you finish on a given date or within a certain time frame. A similar exercise can be done for project costs.

The information you gather in a risk analysis will provide valuable insights in your project and the necessary input to find effective responses to optimise the risks.

Rule 8: Plan and Implement Risk Responses

Implementing a risk response is the activity that actually adds value to your project. You prevent a threat occurring or minimise negative effects. Execution is key here. The other rules have helped you to map, prioritise and understand risks. This will help you to make a sound risk response plan that focuses on the big wins.

If you deal with threats you basically have three options, risk avoidance, risk minimisation and risk acceptance. Avoiding risks means you organise your project in such a way that you don't encounter a risk anymore. This could mean changing supplier or adopting a different technology or, if you deal with a fatal risk, terminating a project. Spending more money on a doomed project is a bad investment.

The biggest category of responses are the ones to minimise risks. You can try to prevent a risk occurring by influencing the causes or decreasing the negative effects that could result. If you have carried out rule 7 properly (risk analysis) you will have plenty of opportunities to influence it. A final response is to accept a risk. This is a good choice if the effects on the project are minimal or the possibilities to influence it prove to be very difficult, time consuming or relatively expensive. Just make sure that it is a conscious choice to accept a certain risk.

Responses for risk opportunities are the reverse of the ones for threats. They will focus on seeking risks, maximising them or ignoring them (if opportunities prove to be too small).

Rule 9: Register Project Risks

This rule is about bookkeeping (however don't stop reading). Maintaining a risk log enables you to view progress and make sure that you won't forget a risk or two. It is also a perfect communication tool that informs your team members and stakeholders what is going on (rule 3).

A good risk log contains risks descriptions, clarifies ownership issues (rule 5) and enables you to carry our some basic analyses with regard to causes and effects (rule 7). Most project managers aren't really fond of administrative tasks, but doing your bookkeeping with regards to risks pays off, especially if the number of risks is large. Some project managers don't want to record risks, because they feel this makes it easier to blame them in case things go wrong. However the reverse is true. If you record project risks and the effective responses you have implemented, you create a track record that no one can deny. Even if a risk happens that derails the project. Doing projects is taking risks.

Rule 10: Track Risks and Associated Tasks

The risk register you have created as a result of rule 9, will help you to track risks and their associated tasks. Tracking tasks is a day-to-day job for each project manager. Integrating risk tasks into that daily routine is the easiest solution. Risk tasks may be carried out to identify or analyse risks or to generate, select and implement responses.

Tracking risks differs from tracking tasks. It focuses on the current situation of risks. Which risks are more likely to happen? Has the relative importance of risks changed? Answering this questions will help to pay attention to the risks that matter most for your project value.

The 10 golden risk rules above give you guidelines on how to implement risk management successfully in your project. However, keep in mind that you can always improve. Therefore rule number 11 would be to use the Japanese Kaizen approach: measure the effects of your risk management efforts and continuously implement improvements to make it even better.

Success with your project!

Bart Jutte is a founder and consultant at Concilio, a NL based company specialising in project risk management. Concilio offers consultancy, training and sells its own easy to use risk management software.

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