# White Paper 2015-07

# Five Contrarian and Simple Disciplines to Improve the Effectiveness of Your Project Risk Management Process

*Through our consulting practice we have observed a number of Project Opportunity and Risk management processes as applied in a number of project-driven organizations, in particular for Large and Complex Projects. We have found that their effectiveness was sometimes low compared to the related expenses and hindered by some simple issues. In this White Paper we share some simple yet contrarian ideas that, if applied consistently, will greatly enhance the effectiveness of that process.*

## The issues with Project Risk process effectiveness

The introduction of Project Opportunity and Risk Management in most Project-driven organizations at the end of the 1990s has led to a substantial improvement in the foresight in terms of Project risks, in particular for lump-sum Projects. Still, the relevant processes are too often, in our opinion, not effective enough and do not support sufficiently the Project Manager and the organization as a whole during Project tendering and Project execution. In particular, Risk Analysts or Risk Engineers are often very junior and it is not yet a profession with a substantial career path, thus creating a significant turn-over. In summary, significant resources are sometimes spent in Project-driven organizations with insufficient results and return-on-investment.

Some concepts to tackle these effectiveness issues, exposed in our new Project Risk Handbook, can be considered to be unconventional, and even maybe controversial, to the practitioner of Project Opportunity and Risk Management – although from our perspective, proven to be more effective than the usual way this process is implemented.

**We observe that too often, Project Risk management processes are not effective enough (comparing business returns to resource expenditure)**

We propose in this White Paper five simple disciplines that are tailored to improve greatly the effectiveness of the Project risk management process. By mentioning effectiveness, we seek to create the most beneficial impact from a limited expenditure of resources. This material has been used for multiple presentations and trainings in a number of leading Project-driven organizations, and we know that these ideas sometime provoke strong reactions. Yet they are logical and simple – although not necessarily easy to implement.

## 1: Implement Effective Prioritization prior to Action

There needs to be a very strong emphasis on substantial prioritization and effort focus in qualitative risk management (risk register management). This often hurts a psychological "fear of loss" – what if we don't do anything on a risk that could materialize? Only focused action can be effective, so prioritization is a must. Action-taking for most risks (those not deemed a priority at that moment in time) should be limited to monitoring only. This can prove psychologically very difficult to implement but does greatly improve the effectiveness of the process.

## 2: Implement Actual Portfolio Risk management

The importance of portfolio-level risk management needs to be underlined, in particular when there are substantial common resources that are used across Projects. Most Project-driven organizations do not have a structured approach in that respect and rely on day-to-day management decisions, while it can be decisive from the organization's sustainability perspective. This issue is related to the prevention of common causes of failures across the portfolio, and the limitation of consequential losses between projects in the same portfolio.

## 3: Do not over-trust the results of Monte-Carlo calculations

The quantitative Monte-Carlo based methods have very strong limitations compared to real life (justified by the mathematics of the approach). For example it does not take into account the real inter-dependencies between activities (related often to resources), and is not even mathematically consistent (more lines in the model will change the result). It is important to run these methods as an indication and a conventional way to assess contingencies within a well-defined framework, but excessive dissection and interpretation of these results are at best ineffective, at worst misleading. The Monte-Carlo method has a very limited capability to represent reality.

## 4: Focus more effort on preventing low probability, high consequence risks

These are the risks that might kill your organization. The prevention of risks of low probability and major consequences (catastrophic risks) need to be subject to different risk prevention methods, called 'Industrial Risk' and require an entire different set of methods and skills (for example, methods such as FMEA and Fault Tree analysis). Yet too many organizations oversee this aspect, which cannot be treated properly by the usual risk management processes.

Conversely, one key method to protect the organization against the risk of dramatic project failure is by systematically including contractual mechanisms to limit major risks (cutting losses), such as overall limits of liabilities and clauses related to the termination of the contract.

### 5: Recognize the psychological effects accompanying failure and the risk of inadequate risk taking

Research in a number of areas has shown that when a project starts to fail significantly, a psychological mechanism can happen whereby people take a gamble that the situation will improve and continue what they are currently doing, waiting for a miracle to happen. This effect is very commonplace and is at the root of many personal and social disasters. It is essential to implement a loss cut-off rule beyond which the organization cuts its losses irrespective of the hope or reassurance of the people involved; or at least where this decision is subjected to really independent appraisal and personnel should be very reluctant to proceed.

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### Summary

It is our firm belief that Project Opportunity and Risk Management should be one of the key processes at the centre of Project and Project portfolio execution. While the process is well established now in most Project-driven organizations, it remains too often a bureaucratic exercise and still requires substantial improvement to really deliver the impact that is intended to the business. We have given in this White Paper some simple key disciplines and we know from experience that some risk practitioners might balk at these suggestions. Still, it is our expectation that these hints will give the Project risk community and the Project-driven organizations' decision-makers sound insights about the reforms that are required to make the process significantly more impactful and better contributing to the organization's long term sustainable business results.



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