

The commercial imperative

Why knowledge and experience of leading risk management practices makes project management organisations more competitive in the market place

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Introduction

Given that across all industries the *raison d'être* for project management is to manage risk and uncertainty to secure a project's objectives¹, then a project manager's grasp of a project's risk exposure, how it will change over time and how it will be managed, will be of acute interest to a project's sponsor. Particularly as poor project risk management has been repeatedly identified as the sole or contributing factor to poor project performance². Those project management organisations that can demonstrate that they have both knowledge of and experience in the application of leading risk management practices must as a consequence place themselves in a very competitive position. It may be the differentiator, what sets one project management firm from another.

However knowledge and application of risk management is very varied across the project management community. Despite national and international professional membership associations clearly indicating the contribution of risk management to effective project management,³ risk management is often viewed as tedious, overly bureaucratic and unproductive. Yet it is comprehension and management of threats and opportunities that will determine if a project is completed on time, does not exceed its budget and satisfies its quality requirements. Project managers are not immune from litigation and fees are called into dispute where stated objectives are not realised.

The frequently cited extract from Sir Michael Latham's report "Constructing the Team" still rings true "Risk can be managed, minimised, shared, transferred or accepted. It cannot be ignored"⁴.

¹ Refer to Atkinson, R., Crawford, L., and Ward, S (2006). *Fundamental uncertainties in projects and the scope of project management*. International Journal of Project Management, 24, (8), 687-698.

² Alter, S. & Ginzberg, M., (1978). *Managing uncertainty in MIS implementation*, Sloan Management Review 20(1), 23-31; McFarlan, F.W (1981). *Portfolio approach in information systems*. Harvard Business Review. 59(5) 142-150; Charette, (1989) *Software engineering risk analysis and management*. New York. Intertext; Boehm. B.W., (1991). *Software risk management, principles and practices*. IEEE software. 8(1), 32-41; Barki, H. Rivard, S. and Talbot, J. (1993). *Towards an assessment of software development risk*. Journal of Information Management Systems. 10(2), 203-225; Yazdanifard, R., and Ratsiepe K. B., (2011). *Poor Risk Management as one of the major reasons causing failure of project management*, Management and Service Science (MASS), 2011 International Conference on Management and Service Science, Wuhan, China.

³ The Association for Project Management (APM) *Competence Framework* lists project risk management as a required Technical Competence (TC05) for effective project management. The PMI PMBOK Guide 5th edition, includes project risk management as one of ten separate 'Knowledge Areas', each being a complete set of concepts, terms and activities that make up a project management field of expertise.

⁴ Sir Michael Latham (1994). *Constructing the Team*. Joint Review of Procurement and Contractual Arrangements in the United Kingdom Construction Industry, Final Report. Published by HMSO.

Effective project risk management

Apart from an awareness of the leading risk management practices there must also be an awareness of what contributes to effective project risk management and similarly how the benefits of risk management can be undermined by a lack of attention to the potential pitfalls. Thirty five common factors which may undermine effective risk management are listed below. It is not an exhaustive list. A project manager's lack awareness of these factors and the appropriate remedies will diminish the likelihood of a successful project outcome.

An awareness of the presence and consequences of these factors by a project manager often does not occur until they are experienced first-hand. This is often too late. This may result in the requirement to withdraw previously issued reports, the repeat of completed activities, reassessment of contingencies, requests for additional funding, schedule delay, a loss of the client's confidence and loss of reputation.

General

1. Inadequate attention to the client's business needs and the catalyst for the project.
2. Risk management commenced too late in the project life cycle.
3. Risk management not driven 'from the top down' impacting the project risk culture.
4. Risk management not adequately integrated with the other project disciplines such as estimating, scheduling, change control, design management, procurement and contract management.
5. Lack of awareness of optimism bias and its pervasiveness throughout major projects⁵.
6. Option analysis not including a risk analysis of each option leading to poor decisions.
7. Ill-considered and inappropriate transfer of risk to the contractor through contract arrangements⁶.

Communication and consultation

8. Risk management terms and definitions not agreed across the project from the outset leading to misunderstandings and confusion.
9. Team members unaware of what may invalidate the business case of a project.
10. Inadequate application of risk management practices across the whole project life cycle.
11. Caught 'on the back foot' by inadequate attention to the project stakeholders and how they may alter the course of a project.
12. Lack of or poorly articulated recommendations included within risk reports.

⁵ NAO (2013) *Over-optimism in government projects*. P4: "the challenges of delivering government projects are compounded by the endemic over-optimism which characterises decisions to commit to projects and the subsequent management of them. This undermines the likely success of a project, often leading to substantial cost overruns, delays in completion and failure to deliver the benefits".

⁶ NAO (2011). *Initiating successful projects*. National Audit Office. www.nao.org.uk

Context

13. Lack of comprehension of the project's external context leading to a lack of awareness of key sources of risk such as legal, regulatory, financial and technological.
14. Lack of comprehension of the internal context in terms of the project scope, objectives, constraints, organisational structure, project management procedures, gate reviews and assurance processes.
15. Lack of awareness of and compensation for the risk culture in the organisation, particularly degree of receptiveness and aptitude for risk management

Identification

16. Unsupported risk identification and lack of utilisation of risk identification tools.
17. Lack of involvement all of the key project participants in the risk identification process.
18. Poorly facilitated workshops and workshops dominated by strong personalities resulting in biased results.
19. Poor involvement of the contractor and supply chain in the risk management process.

Analysis

20. The application of inappropriate scales of impact and probability and or inconsistently applied scales of impact and probability.
21. Unsupported assessment of the risk impacts where there is not an audit trail of impact values.
22. Inadequate involvement of key project actors in the assessment process leading to poor expert judgement.

Evaluation

23. Lack appreciation of the assumptions and exclusions included in the cost report upon which the quantitative cost risk analysis was based.
24. Risk relationships not modelled in the quantitative risk analysis.
25. Different assumptions adopted for the cost and schedule risk analysis.
26. Lack of sense checking of quantitative risk analysis results leading to risk management being discredited.
27. Lack of risk-based contingency assessments
28. Lack of a robust challenge of risk contingencies that are set artificially low.

Treatment

29. Lack of SMART treatment actions.
30. Lack of assignment of responses to individual with clear responsibility for implementation.

31. Proximity of risks (timing of impact) not assessed leading to lack of prioritisation of actions.

Monitoring and review

32. Management of treatment actions not built into 'business as usual' and integrated into regular project meetings.
33. Inadequate monitoring of the progress of the implementation of risk response actions.
34. Infrequent updating of the risk data which leads to risk information being discredited or ignored.
35. Proposed changes to the project scope not assessed from a risk perspective.

Risk management maturity

There is also a startling repetitive naivety on large programmes that mature risk management practices will be available "out of the starting blocks". The level of risk management maturity assumed to be attainable by consultants (that have secured a commission against a financial and technical bid) and are already committed (by way of their bid) to a particular scope and method of implementation of risk management, may be a fallacy⁷. In addition those within the project management organisation that committed the organisation to a particular fee level and level of risk resources may never have implemented risk management or even consulted a risk management specialist. As a consequence the level of risk management resources included may be woefully inadequate from the outset, so that ascending the maturity levels will be an even greater challenge. As a consequence the project management organisation's reputation is quickly tarnished as it fails to deliver against promises.

A project is not an end in itself

There needs to be recognition that projects are typically undertaken as part of a wider business initiative to grow the business and hence it is important to understand the client's rationale for undertaking the project. There also needs to be understanding of what project failure would mean to the client's reputation in the market place (borrowing capabilities, relationship with customers and shareholders, share price, and confidence in the supply chain) if the project fails. Why is the timeline critical, such as getting a new product to the market before a rival, vacating premises before the lease expires or meeting existing customer orders. Frequently, during the project life cycle, it becomes evident there is a disconnect between (i) the project and (ii) the client's strategic planning and business needs.

⁷ Chapman, R.J. (2014). *The rules of project risk management, implementation guidelines for major projects*. Gower Publishing, England, UK

Conclusion

While there are a host of factors involved, knowledge and demonstration of the application of leading risk management practices can be the tipping point between winning or losing bids for project management services. This is critical where the cost of preparing bids and making presentations is rising and senior staff are temporarily removed from fee paying work. In addition for commissions already secured, a lack of comprehension of the constituents of effective project risk management and the consequences when it is poorly executed can leave project management firms exposed to: reputational damage, disputes over fees and or litigation. The staff of project management firms must be aware of the discipline of risk management, how and when it should be applied, the consequences when execution falls short and most importantly where it can add value.

About the Author



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Robert J Chapman is an international risk management specialist and Director of Dr Chapman and Associates Limited (www.drchapman-assoc.com). He is author of *'Simple tools and techniques for enterprise risk management' 2nd edition*, published by John Wiley and Sons Limited, *'The Rules of Project Risk Management, implementation guidelines for major projects'* published by Gower Publishing and *'Retaining design team members, a risk management approach'*, published by RIBA Publications. He holds a PhD in risk management from Reading University and is a fellow of the IRM, APM and ICM and a member of the RIBA. He has provided risk management services in the UK, the Republic of Ireland, Holland, UAE, South Africa, Malaysia and Qatar on multi-billion programmes and projects. Robert has passed the M_o_R, APM and PMI risk examinations and provided M_o_R risk management training to representatives of multiple industries. He can be reached by email at robert.chapman@drchapmanassociates.co.uk