Practical Project Risk Management[1]

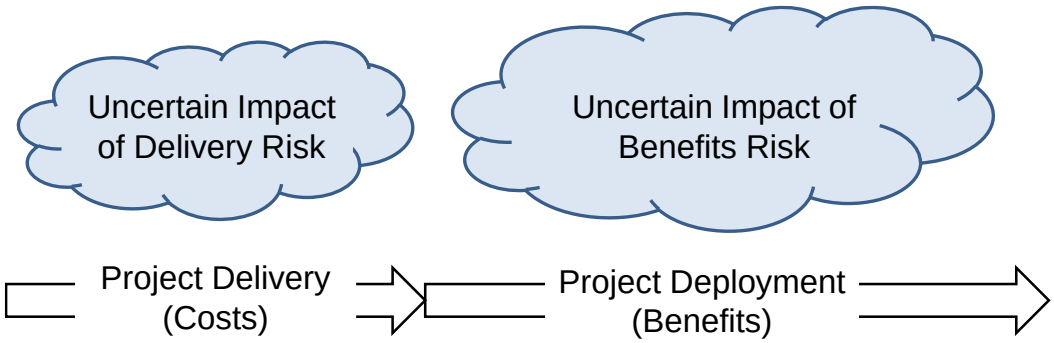
Risk to Project Benefits: A brief guide [2]

Purposes

1. Manage the risk to project benefits from the earliest opportunity.
2. Optimize the trade-off between risk to a project's delivery and risk to its benefits.

The Risk to Project Benefits Usually Exceeds the Risk to Project Delivery

In a simple project lifecycle model, the benefits of a project start to be realized after the completion of project delivery as illustrated by the figure below.



Reasons why the risk to project benefits tends to exceed the risk to its delivery phase include:

1. The value of project benefits exceeds the sum of the project's delivery cost and any subsequent through life costs (assuming there is a positive business case).
2. Benefits materialize during a later period, which can make the consequences of the associated risk more uncertain.
3. Adverse consequences of project ownership (disbenefits) are often unidentified.

Despite the risk to project benefits, many organizations focus primarily on project delivery risk. In doing so, they often fail to manage the larger part of the project's risk exposure.

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[1] This series of articles is by Martin Hopkinson, author of the books "*The Project Risk Maturity Model*" and *"Net Present Value and Risk Modelling for Projects"* and contributing author for Association for Project Management (APM) guides such as *Directing Change* and *Sponsoring Change.* These articles are based on a set of short risk management guides previously available on his company website, now retired. See Martin's author profile at the end of this article.

[2] How to cite this paper: Hopkinson, M. (2023). Risk to Project Benefits: A brief guide, Practical Project Risk Management series, *PM World Journal*, Vol. XII, Issue X, October.

Project Benefits that may be important to the Business Case

Project benefits may include those with economic and/or noneconomic value including:

1. Value to the owners and users of the project's products.
2. Operations efficiency savings.
3. Increase in profit due to increased turnover and/or profitability.
4. Release of assets for sale, scrap value, let or other beneficial purposes.
5. Externally sourced financial benefits e.g. subsidies or tax breaks.
6. Reputational benefits.
7. Leverage of opportunities for future projects.

When can you start to manage the risk to Project Benefits?

Risk to project benefits can be identified during the earliest phase of a project e.g. the concept phase. Early project phases can thus be used to identify and manage risk to both project delivery and project benefits. Trade-offs between project delivery resource requirements and project benefits and the associated risk can influence project shaping decisions that optimize the overall project solution. Net Present Value (NPV) risk modelling is an example of a technique that can help achieve this.

Approaches that can be used to help manage risk to benefits

1. Engagement of the project sponsor and project users in the risk management process.
2. Risk identification tools e.g., prompt lists that are relevant to benefits and disbenefits as well as project delivery.
3. NPV Risk Modelling during the earliest phases of a project.
4. Project plan shaping to optimise project delivery vs benefits and to manage benefits risk.
5. Adjustment of project objectives associated with benefits in response to risk analysis.
6. Including benefits and whole life costs, plus associated risk in the project business case.
7. Including risks to benefits and whole life costs in the project risk register.
8. Relating the classification of product impact classification criteria to the value of benefits.
9. Using insights into benefits risk to influence the plans for a project handover phase.
10. Benefits realisation planning.
11. Incentivising contractors using performance metrics related to benefits realisation.

Common Faults

1. Risk management process that is focused on project delivery only.
2. Failure to identify the risk of project disbenefits.
3. Failure to make subcontractors bear any consequences for lost benefits that they cause.
4. Insufficient engagement between project delivery and operations staff.
5. Lack of acceptance of risk ownership responsibility by the project sponsor.

About the Author

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Martin Hopkinson, recently retired as the Director of Risk Management Capability Limited in the UK, and has 30 years' experience as a project manager and project risk management consultant. His experience has been gained across a wide variety of industries and engineering disciplines and includes multibillion-pound projects and programmes. He was the lead author on Tools and Techniques for the Association for Project Management's (APM) guide to risk management (*The PRAM Guide*) and led the group that produced the APM guide *Prioritising Project Risks.*

Martin's first book, *The Project Risk Maturity Model*, concerns the risk management process. His contributions to Association for Project Management (APM) guides such as *Directing Change* and *Sponsoring Change* reflect his belief in the importance of project governance and business case development.

In his second book *Net Present Value and Risk Modelling for Projects* he brought these subjects together by showing how NPV and risk modelling techniques can be used to optimise projects and support project approval decisions. (To learn more about the book, click here.)