Whet the Appetite Report

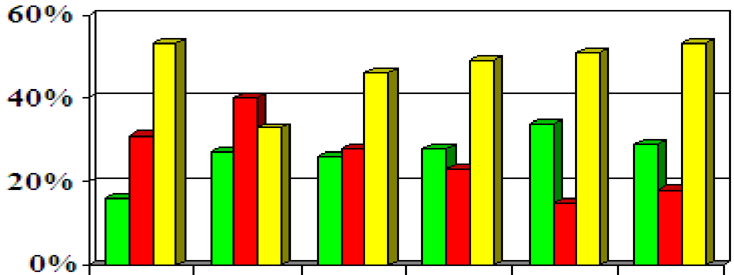
The Criticality of Risk Management

"If you don't succeed with risk management, you won't succeed with project portfolio management," Raytheon CIO Rebecca Rhoads, who credits risk management with lowering failure rates and helping achieve its performance targets.

Organisations are increasingly reliant on project delivery as a critical competency to realise the organisations strategy, and achieve its objectives and performance to support ongoing organisational growth. However, undertaking change projects involves uncertainty, which if not managed closely can affect the project's ability to meet its objectives. Minimising uncertainty is important to enable informed decisions to be made in all aspects of project management. Minimising uncertainty and improving decision making requires an integrated risk management approach that identifies areas of potential risk, risk probability, and their impacts. Despite wide acceptance of the inherent logic of the above principle, the reality is that formalised risk management is under-utilised, consequently effecting most aspects of a project management practice and performance. History is littered with examples where project risk was not well managed including the following just to name a few:

- A Navy helicopter program, with $1bn spent, the helicopters never got off the ground due to a myriad of technical problems.
- A British food retailer had to write off $526m it had invested in an automated supply-chain management system that could not adequately manage warehouse stockpiling and distribution
- Car manufacturer had to re-installed software fix on 160,000 vehicles that were incurring unexpected engine failures and systems warnings. The automobile industry spends $2 to $3 bn per year fixing software problems.
- July 2004 a new government welfare management system in Canada costing $200m was unable to handle a simple benefits rate increase. The project never tested the ability to handle a rate increase.

The absence of risk management is having a significant impact on project performance and organisation value according to the Standish Group's Chaos Chronicles. In its 10year study (1994-2004) of more than 50,000 projects, its research showed, despite significant improvement, only 29% of projects were successful. 18% of all projects failed and a further 53% were challenged on schedule (with 82% not meeting schedule), costs (average cost blow out of 43%) and/or (52% of all expected requirements) under-delivered against original scope. This represented total U.S. project waste of $55 billion out of total project spending of $255 billion, and was made up of $38 billion in lost dollar value and $17 billion in cost overruns.



	1994	1996	1998	2000	2002	2004
Succeeded	16%	27%	26%	28%	34%	29%
Failed	31%	40%	28%	23%	15%	18%
Challenged	53%	33%	46%	49%	51%	53%

Figure 1. Ten years of Chaos Chronicles shows continued poor project performance

In an increasing age of turbulence with tightening budgets, limited resources, variable markets and unrelenting competition, the case for implementing formalised risk management is self evident. In an article on the challenges facing today's business leaders, *The Economist* magazine reports that CEOs need to implement a reliable risk management solution enterprise wide. Such a solution not only analyses risk, but also raises alert of potential problems earlier. [Jeffrey Garten. "A new year; a new agenda," The Economist. Jan 2nd 2003]

Risks left unmanaged can negatively impact project completion and prevent achievement of its objectives. Formalised risk management policy, process and infrastructure are an essential control for project and portfolio management success, and an important aide to organisational decision making in the management and protection of the organisations objectives and realisation of the desired return on its investments.

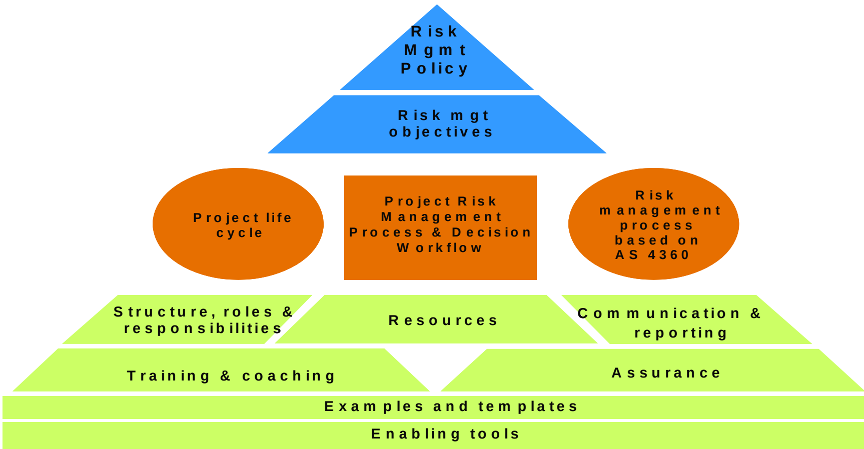


Figure 2. Elements of a formalise risk management infrastructure

A formalised risk management approach and supporting infrastructure will help to combat the most common risk issues evident in organisations that do not manage risk well and have poorer project performance as a result. The most common risk issues are:
1. risk management is not (consistently) applied across all projects in the organisation
2. management of risk is not a priority, not integrated into project planning and day to day management
3. the value of risk management is not understood and therefore lacks buy-in and support within projects

The 10 tenets to successful risk management are:
- Identify and assess risks early and often
- Build risk management activity into the project schedule and day to day execution
- Communicate risks clearly in ‘story telling’ mode and the language of ‘the business’
- Clarify and obtain ownership for risks from the decision makers
- Consider risks as opportunities to change approach, not just as threats to existing plans/ways of working
- Prioritise risks – not all risks are equal nor need to be actioned
- Analyse risks fully – be certain about the root causes of risk
- Plan AND implement risk responses
- Record risks – if they are not recorded, they cant be tracked and monitored
- Be clear about the organisation risk tolerance and policy and manage projects within them

Risk management frameworks should be integrated within the project and portfolio governance and practice model and require deliberate investment to establish and maintain it. When done correctly, with sufficient and accurate information, risk management helps to reduce project and portfolio management uncertainty, subsequently improving the chances of success and realisation of the organisations return on investment.