Risk Management: Key to Project Intelligence

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Purpose
To trace highlights of early Project Risk Management use, discuss the influences currently in play, note current best practices and lessons learned, and discuss where the discipline is headed, as the Enterprise learns new uses of Risk in Project Intelligence.

A. Where We've Been
Many organizations were first exposed to Project Risk Management methods in the 1970s and 80s, as consultants used checklists in their engagements. This use of checklists typically had two purposes:

1) To determine how much Project Risk a potential engagement faced, and
2) To help decide how much to charge clients to manage the clients' own Risk.

One of the then "Big 8" firms[1] came up with a differentiating idea: Why not use Project Risk Assessment to help clients identify the Risks they could manage, and given those commitments as contract exclusions, to produce a lower bid?

At first, the reaction was surprising. In the first year, in at least half the cases, potential clients preferred the Risk-burdened bid to the lower one. They preferred to pay others to manage their own Risk!

And then the intelligence of this approach caught on. Soon the other firms had to match this tactic, in order to compete—and this is one of several factors that contributed to the collapse of the "Big 8" to today's very different "Big 4".

The secret weapon of this firm: Risk knowledgebases by industry, by technology, and in some cases by client, that showed the most frequent Risks encountered. Their Risk Assessment thus drew from a knowledgebase of Risk intelligence.

While they still used checklists to probe additional Risks, they just did not use them to inflate their bids.

Learning: One smart purpose of Project Risk Assessment is to help produce a fair price, *not* to produce a bid multiplier.

B. Convergence: Where We Are Today
Today's Influences
In today's business environment, there is a lot of interest in Risk Management. For example both the UK[2] and Australia/New Zealand[3] have established Risk Management standards that, while oriented toward all types of Risk, have strongly influenced Project Risk Management.

Project BOKs and Competency Certification Baselines are now "catching up" with the Risk Management methods of other professions. Groups as varied as the Software Engineering Institute and NASA have also recently contributed to Project Risk Management practices.

Risk Promoted Into the Executive Suite
And now Risk is headed into the Executive Suite, as everything from Basel II (a new set of financial and operations Risk standards), to HIPAA, Sarbanes-Oxley, and other regulatory movements make Executives personally responsible for managing Risks.

Perhaps the next "C-level" executive will be the Chief Risk Officer! This has been part of the responsibility of Executive Management all along, but while we may have new exposure to Risk, we still have few tools, little actionable information, no consistent process, and little hope for rapid improvement!

Some Apply Best Practices, Some Do Not
Some have institutionalized Risk Management as a key part of their Project Intelligence. With effective Risk Management, they apply many of the same best practices they use in all other project success stories:

- Establish consistent process.
- Assure (traceable) documentation of results.
- Clarify responsibilities and authority.
- Don't allow time pressures to thwart results.
- Provide skill-building and coaching.
- Assure vertical and horizontal communication.
- Assure linkage to enterprise strategy.

Some Enterprises today are doing a sterling job in Project Risk Management. Why aren't all of them, especially with Risk so very prevalent?

C. Where Risk Management Is Headed

Everyone Becomes a Chief Risk Officer

Enterprises that effectively execute Project Risk Management begin with implementing those best practices listed above.

Many have also adopted an insight from the Quality movement of the 80's: *Improving Quality is everyone's job*. We don't just add a Chief Risk Officer: *managing Risk is everyone's job.*

Today's savvy Project Managers are using newfound Executive interest in Enterprise Risk Management to engage those same Executives in the practices that help manage Project Risk.

For Project Managers who have been trying for years to overturn ineffective practices and inadequate involvement, your efforts are finally receiving the attention they deserve. And one of your tools is as powerful as the legendary Philosopher's Stone.

Project Alchemy and the Philosopher's Stone

You may recall stories of the search for the Philosopher's Stone: from around 200 A.D. into the 1800's, some people spent their entire lives looking for the stone that would turn base metals into silver or gold.

In today's project environment, many are attempting a comparable feat: to turn raw data into information, *and then into intelligence*. We've noted elsewhere[4] the flaws of focusing on tools to capture, evaluate, and gain insight from **project time and cost data**. Their biggest problem: they are *trailing indicators*.

Those who are succeeding with Project Alchemy—turning raw project data into intelligence—and action—are focusing on the harder-to-measure project factors, and key among these is Project Risk. Risk information is a *leading indicator*. Leading indicators, used intelligently, result in beneficial action.

What is Risk? Risk is an event (Opportunity or Threat) *that might happen* on a project. There are many more *potential risks* than those that actually *do happen*. Too many project teams do a cursory job of Risk Identification, Evaluation, Response Identification, and then move on to their next project task. *Smarter teams* improve their Risk intelligence.

Risk Information as Project Intelligence.

Let us get a bit more specific about how Risk information relates to Project Intelligence—and then we can address how you might use it to add value to your project practices.

Review the diagram[5] below. It shows four types of project events, all of which can affect project success, on the face of a clock. This example shows the Threat side of Risk; Opportunities operate the same way.

The hands on the clock show Midnight—when the interesting things happen in many stories. Where is Risk on the clock? *Before the stroke of Midnight*. **Risk** is an event that *might* happen, but *has not, yet*.

Now let's look at just after Midnight: *An **Issue** is a Risk realized*. But it has not yet impacted the project's success factors. You have a window of opportunity to act, to avoid impacting the project.

Continuing around the clock, a **Failure** is an Issue with no corrective action taken. Now the project's success is adversely affected. This may not mean the whole project will fail; instead, you have experienced one point of failure. Of course, some Issues are large enough to cause the entire project to fail.

Finally, at half past the time to act (on the clock), **Lessons Learned** identify (at the end of the phase or stage in our methods, or minimally at project end), the failures, and how you can avoid them next time.

Many failure points recur later in the same project, so there are good reasons for our practice of evaluating failure points at the end of each phase or stage: Why wait until the next project to act on them?

Same Information, Different Timing

The benefit of the clock analogy is clear, and startling for many people: The major difference between these four types of project events, Risks, Issues, Failures and Lessons Learned, is their timing.

Not only that, but ***they are all the same information***. That information, in most cases, if acted upon, will reduce Risk, react to Issues, avoid Failures, and produce positive Lessons Learned. In short, that information is more than a leading indicator; it is the key to intelligent project action. **We've found the Philosopher's Stone!**

Clocks do not stop with just one rotation: what should you do at the beginning of each phase or stage, and the beginning of each new project? Study your Lessons Learned!

This brings up a quote from a grizzled old engineer from a major aerospace company:

> *"You know, around here we do a lot of Lessons Recorded, but very, very few Lessons Learned".*

Some organizations record their Lessons Learned, both positive and less-so, only because their methods call for it. More savvy organizations, like the consultancy we described on the first page, mine those lessons for ways to reduce Risk, reduce cost and time, and otherwise improve chances of project success.

Morphing Information into Intelligence

We've asserted that the four events, Risks, Issues, Failures and Lessons Learned, are all the same, with different timings. Everyone knows what information to capture about these events. This usually includes the nature of the event, some categorization, impact assessment, and what recommended action to take.

To glean intelligence from Risks, additional information[6] can be especially useful:

- Risk Identification Point
- Risk Realization Period
- Risk Trigger or Realizing Indicator
- Risk Owner, Response Owner
- Response Effectiveness
- Distinctive Project Attributes (e.g., customer, technology types, team, project type)

Using Project Intelligence

First, understand the similarities of these project events, and establish a way to collect the event information. Then, use that collection of Project Intelligence to tap the experience from finished projects that share similar attributes.

Over time, the re-use of relevant Risks and of relevant and successful Responses can grow in your practice. Soon, you can predict the primary risks and most effective responses as part of bidding or project initiation, rather than merely responding to them later in the project (or not at all).

Society will continue to encounter projects with increasingly greater Risks. These Risks may be caused by the complexity of Requirements, by the reduced communication of a distributed team, by incautious use of an Outsourced solution, or by the nature of a selected delivery technology. Applied Project Intelligence can help you overcome all those Risks.

Conclusions

- Many Enterprises try to find *information* by storing *data* in a project server.
- Those organizations may gain rear-view mirror insight, but you don't drive a car by only knowing where you've been. You need leading indicators to lead projects well.
- Project Risk Management succeeds when you apply relevant information, providing leading indicators, rather than trailing ones—with substantiating data.
- Just as it differentiated one consulting firm in the 1980's, Effective Risk Management is a key differentiator today, and a key to project success.
- Risk Management is now everyone's job, and this realization is a key to *the new Project Intelligence*.
- Apply Risk learning—*today's Philosopher's Stone,* to help morph project information into intelligence.
- Communicate upward to leverage Executive Management's focus on Enterprise Risk to get needed commitment to respond to Project Risks.
- Add to your Project Intelligence, through effective use of Project Risk Management. This will help provide the intelligence you need to lead projects by facing forward, rather than only looking back.

Author Biography

STACY A. GOFF, **IPMA-D, PMP,** ***the PM Performance™ Coach,*** is president of ProjectExperts, a Project Management consulting, tools and training company that has served Enterprises, Governments and Consultancies on six continents.

A PM practitioner since 1970 and consultant since 1982, he helps improve Enterprise or workgroup project productivity, timeliness and effectiveness.

Mr. Goff provides consulting services and presents workshops of great interest to executives, managers, project managers and leaders, and individual contributors. His audiences include Information Technology, Aerospace and Defense, Government, Finance, Insurance, large and medium Consultancies, Manufacturing and Pharmaceutical organizations.

His company's methods improve any organization's results in Project Management, from better cost and time control, to improved Risk Management.

He has published THE Guide, a project management methodology for Information Technology projects, used on four continents. Other unique methods for improved project success include MinProj®, a universal minimum project management methodology, Co-Pilot: Small Project Guide®, and KnowRisk®, for improved Project Risk Management, and a foundation of Project Intelligence.

Mr. Goff's professional affiliations include membership and certified Project Management Professional® with the Project Management Institute, and co-founder of *asapm*®, the American Society for the Advancement of Project Management.

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Footnotes

1. Based on a ProjectExperts engagement for a "Big 8" firm in 1987-1988. This client had two objectives: To win more bids, and make more profit on bids won. Our methods helped them accomplish both, and changed the way most projects were bid in their industry. The firm's name is not shared as a result of a signed non-disclosure.

2. British Standard BS6079-3:2000 "Project Management – Part 3: Guide to the management of business-related project risk". Published by British Standards Institute, London, UK.

3. Australian/New Zealand Standard AS/NZS 4360:2004 (Third Edition). Jointly published by Standards Australia International Ltd, GPO Box 5420, Sydney, NSW 2001 and Standards New Zealand, Private Bag 2439, Wellington 6020.

4. Project Levers and Gauges, ProjectExperts website: http://www.projectexperts.com/articles/levers_and_gauges.htm.

5. From the ProjectExperts curriculum on Project Risk Management.

6. From the ProjectExperts Risk Management Knowledgebase, KnowRisk® (a USA-registered trademark). KnowRisk is a commercially available tool, in both a universal Enterprise version and an Information Technology-specific version.