

# Proving the value of managing risk

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Every year the Project Management Institute (PMI) sponsors a number of academic research projects aimed at advancing the state of knowledge and practice in project management. When looking for suitable research topics the PMI Research Department seeks input from their Specific Interest Groups (SIGs) who are the subject-matter experts in each particular field. This year the PMI Risk SIG was invited to suggest some ideas for risk-related research projects, and we asked our members what issues they would like to see addressed. The response was huge, with 99 ideas being suggested, which is very encouraging – obviously we still have a lot of interesting questions about managing risk. The list of ideas was filtered and consolidated into a shortlist of eight, and SIG members then voted to prioritise these.

The topic that came out on top was to conduct a research project aimed at calculating Return On Investment (ROI) for risk management. We wanted to discover the best metrics for determining whether a risk management process is effective, and to find ways of showing a link between risk management and improved bottom-line outcomes. We also wondered if it might be possible to prove in advance the value of doing good risk management, for example, to convince management or a client that risk assessment should be undertaken in order to develop appropriate response strategies. Could research give us guidelines on how to demonstrate success in risk management, and identify the critical success factors? Can we quantify the beneficial impact of risk management (through some type of cost-benefit analysis) and combine that with an estimate of how much risk management costs in order to calculate an ROI?

Interestingly, the PMI Research Department felt that it was not possible to design an academic research project to answer these questions directly, and they decided not to take the idea forward. This leaves an important and vexing question for risk practitioners – how do we prove we're adding value?! If academic research can't help us, is there any other practical way of demonstrating that risk management is working?

Part of the problem is the perception that risk management can seem to be a waste of time and money. If risk was successfully managed, then nothing would happen, at least there would be no unpleasant surprises, and everything would go according to plan. But how do we know that the lack of problems is due to successful risk management? Perhaps we were just lucky? Or perhaps there were no real risks anyway? So maybe we should stop wasting our efforts trying to manage things that may not exist, or that may never happen even if

they do exist, and instead concentrate on the real tasks in hand. Real project work is more important than theoretical risks, right?

Here are three practical suggestions to persuade the sceptics that risk management is worth doing.

1. Firstly, if risk management were only about threats, successful risk management would, indeed, mean that 'nothing happens'. In line with Popper's Falsifiability Principle, we know it's impossible to prove a negative, even though absence of evidence is not evidence of absence. So we couldn't say for certain that investing in risk management was positively correlated with lack of problems. However, now we have a new view of risk that includes opportunities as well as threats. Now successful risk management should address threats and result in avoiding problems as before, but it should also create additional value through maximising and exploiting opportunities. And, of course, this can be measured.
2. Secondly, it's true that we cannot run the same project twice, so we have no control for proving risk management effectiveness. We can't do it once with risk management and once without, and see what difference the risk process makes to the project outcome. But we can learn from our experience over time with a number of projects. If we track project performance over a number of years, measuring how many deliver on time, within budget, with full scope, etc, we should be able to see if there is any link between our ability to manage risk and the success rate for our projects. Perhaps we could demonstrate that, as risk management maturity and competence increase, so does project success.
3. Thirdly, the value of risk management will be obvious if we emphasise the close link between risk and objectives. Risk is defined as 'any uncertain event or condition that, if it occurs, will have a positive or negative effect on achievement of project objectives'. The point of the risk process is to minimise threats and maximise opportunities, so that we can optimise achievement of objectives. This makes the relationship between managing risk and project success clear. If we fail to manage risk effectively, then unmanaged threats will turn into problems that result in delays, additional cost, destroyed value, etc. Ineffective risk management will also lead to missed opportunities, denying us the benefits that we could have gained if we'd been



able to capture some of those opportunities. We need to understand that there are distinct bottom-line benefits for both the project and the business. We do risk management because it delivers value and helps us to succeed, not because we have to.

Perhaps it is better that we don't rely on the academics to tell us whether risk management works or not. Managing risk is essentially a practical task, done on the ground by hard-pressed project teams who need to see results. We need to do it properly, and see what happens. We should expect to be hit by fewer problems as we manage threats successfully, but also to find ways of saving time and money as we capture opportunities. We should see our rate of project success improving with time in line with our ability to manage risk effectively. And we should demonstrably increase our ability to achieve project objectives as a direct result of managing those risks which could affect them. Otherwise, why would we bother?

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## About the author

Dr David Hillson, PMP, FAPM, FIRM, is an international risk management consultant, and Director of Risk Doctor & Partners ([www.risk-doctor.com](http://www.risk-doctor.com)). He is a popular conference speaker and award-winning author on risk. He is recognised internationally as a leading thinker and practitioner in the risk field, and has made several innovative contributions to improving risk management. David is an active member of the global Project Management Institute (PMI) and received the PMI Distinguished Contribution Award for his work in developing risk management over many years. He is also a Fellow of the UK Association for Project Management (APM) and a Fellow of the UK Institute of Risk Management (IRM).

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