

The benefits of managing risk

by Dr David Hillson, director, Risk Doctor & Partners

Last month's Risk Doctor column considered the costs of managing risk on projects. These are often measured as part of a cost-benefit analysis, in an attempt to determine whether risk management has a positive return on investment (ROI). The cost of risk includes **entry costs** to establish a risk management capability (such as tools, techniques and training), **ongoing costs** to maintain that capability (refresher training and process updates), and **operational costs** associated with actually managing risk on projects (both implementing the process and executing agreed risk responses). In addition there are the **soft costs** of developing and maintaining a risk-aware culture, as well as the **hidden costs** of unmanaged risk.

Having counted the cost of risk management, it is time to turn to the second component of the cost-benefit analysis, namely benefits. What does risk management offer in return for investment from the organisation? There are many benefits arising from a proactive and structured approach to managing risk. These are found at different levels, starting with the project itself, but also including the project manager, the project team, and the wider organisation.

The project that has an effective risk process will experience fewer surprises as it employs the forward-looking radar of risk management. Predictability is valued by many project-based businesses, and the ability to look ahead and spot potential problems and benefits is key to project success. Being able to do something about those potential problems and benefits is even better, of course! Every project would benefit from minimising threats to achievement of its objectives, as well as maximising opportunities to work faster, smarter and cheaper. Effective risk management leads to more successful projects, delivered on time, within budget and with full scope. Waste and rework are minimised, both as a result of realistic initial plans, and because of improved flexibility and resilience to change. Risk assessment also improves the project's ability to determine the impact on risk exposure of proposed or imposed changes. Where risk remains in the project (as it surely will), an appropriate level of risk contingency can be allocated, and the people best able to manage residual risk can be identified.

The benefits of managing risk are not just found at project level. **The project manager** in charge of a project where risks are managed proactively and effectively will reap a range of personal rewards. These include an enhanced personal and professional reputation, becoming known as a person who can deal with risk and

deliver a successful project. This is likely to lead to career enhancement, perhaps in the form of promotion or allocation to more challenging and high-profile projects. A higher professional standing might also create new opportunities in the wider project management community, improving openings for networking and development. On a personal note, becoming more risk-aware will lead to less fire-fighting and fewer crises on the project, reducing stress levels both for the project manager and the team. The project manager will also be able to focus the team on the key issues facing the project, addressing the worst threats and the best opportunities. Project team members and other resources can be concentrated in the highest-risk areas of the project, maximising effectiveness. Where additional resources are required, an effective risk process can support the project manager's call for assistance, providing senior management with a justified case for intervention.

The project manager is not the only person to benefit from a risk process that addresses risk effectively. **Project team members** will find work more fulfilling and more fun, as they are able to concentrate on what matters. Knowing that unplanned changes will be kept to a minimum and that the project is well controlled will improve team motivation and lead to higher productivity. The team will also appreciate the platform provided by the risk process where they can express their concerns about the things that might affect the success of the project. Being able to do this in a safe environment without personal blame is an important benefit for team members. The process also acts as a framework for them to make a significant contribution to project success, as they identify threats and opportunities, propose responses, and implement actions to change risk exposure. Being able to affect project risk exposure directly will lead to higher morale and a sense of ownership among team members.

Finally, there are clear benefits to the **wider organisation** from having risk managed effectively at project level. These include more satisfied clients whose projects are delivered successfully. This enhances the organisation's reputation and should lead to more work and better work. In fact, effective risk management creates competitive advantage, both through improved project delivery and also through the ability to produce better bids and proposals. The organisation improves its risk-awareness and learns how to take the right level of risk into the business. A clear understanding of organisational risk appetite

allows a risk-balanced portfolio to be built and managed, avoiding bad projects which breach the risk threshold. As the organisation learns from experience about the risk inherent in its business and projects, it should be able to modify standard operating procedures to reduce the cost base and maximise margin or profit. And, finally, people will want to work for an organisation where risk is managed effectively. This will allow the business to recruit and retain the best staff at all levels.

So, there are multiple benefits available from managing risk. These can be found within the project, as well as at a personal and professional level for the project manager and the team. Even the wider organisation benefits from effective risk management. Many of the benefits outlined here can be measured, although there are certainly a significant number of intangible benefits (which are not less important, of course). Combining these benefits with an assessment of the costs of managing risk allows us to estimate the return on investment (ROI) for risk management. Although managing risk is not free, the wide range of benefits available offers clear support for the assertion: **'Risk management is good for you!'** And to the question 'Is it worth it?', the answer is also clear – **YES!**

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). 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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