Risk management: the case for including opportunity

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Risk management is recognised as an important contributor to project and business success, which is why it is an essential part of the PM body of knowledge.

Risk management has developed in recent years into an accepted discipline, applied more broadly than just in projects, with its own language, techniques and tools, and a growing body of literature specifically devoted to the subject. The value of a proactive, structured approach to managing uncertainty has been widely recognised, and many organisations are seeking to introduce risk processes in order to gain the promised benefits.

But although risk management is a mature discipline, it is still developing in order to meet the changing challenge of uncertainty in projects and business. There is an accepted core understanding of risk management, but new directions are constantly being explored and a number of initiatives are underway to extend the boundaries of the subject. One key area of recent development is the inclusion of opportunity in the definition of risk, with a resulting broadening of the scope of the risk process to manage both upside and downside proactively.

Of course common usage of the word 'risk' sees only the downside. If you ask someone if they would like to have a risk happen to them, they will nearly always say no because 'risk is bad for you'. But many professional bodies are taking a different view from the layman. For example the revised edition of the APM Project Risk Analysis & Management Guide (PRAM Guide, launched in October 2004) defines a risk event as 'an uncertain event or set of circumstances which, should it occur, will have an effect on achievement of one or more objectives'. The new PRAM Guide goes on to state that:

"A key principle in the definition of risk event used in this guide is the recognition that uncertainty can affect achievement of project objectives either positively or negatively. The term risk event is therefore used to cover both uncertainties that could hinder the project (threats) as well as uncertainties that could help the project (opportunities). As a result, the risk management process is designed both to avoid and minimise threats as well as to exploit and maximise opportunities. The aim of addressing both types of uncertainty in the single risk management process is to optimise achievement of project objectives."

Dr David Hillson is an international risk management consultant and Director of Risk Doctor & Partners. He is an award-winning author on risk and in demand as a conference speaker. He is recognised internationally as a leading thinker and practitioner in the risk field and has made several innovative contributions to improving risk management. His recent emphasis has been the inclusion of proactive opportunity management within the risk process, which is the topic of his latest book.

David is a Fellow of the Association for Project Management and has been active for many years in its Risk Management Specific Interest Group (including as Chairman from 1998-2000). He was co-editor of the original APM Project Risk Analysis & Management (PRAM) Guide and was an author and Steering Group member for the 2004 update.

He is also an active member of the global Project Management Institute (PMI) where he is a founder member of its Risk Management Specific Interest Group and a key author for the risk chapter of the PMI's PMBoK Guide. He received the 2002 PMI Distinguished Contribution Award for his work in developing risk management over many years. David was elected as a Fellow of the UK Institute of Risk Management (IRM), and is also a member of the Chartered Management Institute.

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There is no doubt that projects, like everything else in life, are subject to uncertainty. It is also clear that some of that uncertainty might be harmful if it came to pass, whereas other uncertainties might assist in achieving our objectives. The issue is whether we could or should include both types of uncertainty in our definition of risk, and whether both could or should be handled by a common risk management process. Despite some continuing debate, the project risk management community is moving decisively towards the inclusive position.

Does this matter, since, as Shakespeare said: 'That which we call a rose, by any other name would smell as sweet'? It matters because encompassing both opportunities and threats within a single definition of risk is a clear statement of intent, recognising that both are equally important influences over business and project success, and both need to be managed proactively. Opportunities and threats both involve uncertainty which has the potential to affect objectives, and both can be handled by the same process, although some modifications may be required to the standard risk management approach in order to deal effectively with opportunities. Typical process modifications might include:

Risk identification: Routine identification techniques such as brainstorming or checklists could be used for opportunity identification, but the habit of project teams to think negatively in such settings is hard to overcome. Techniques specifically focused on exposing opportunities can therefore be used, such as SWOT (strengths, weaknesses, opportunities, threats) analysis, assumptions analysis and constraints analysis.

Risk assessment: The standard probability-impact (P-I) matrix could be used for both threats and opportunities, but this might lead to confusion. Use of a double-format 'mirror' P-I Matrix is recommended, to rank threats and opportunities and separate them into priority zones for further attention.

Response strategies: The typical threat-focused strategies of avoid, transfer, or reduce cannot be applied to opportunities, but positive equivalents can be developed, such as to exploit (aggressively capture the opportunity), share (involve another party in managing the opportunity in return for a gain-share), or enhance (increasing probability and/or impact to improve the opportunity).

There are definite advantages in handling both opportunities and threats using a common risk management process. There is no need to introduce a new process since the traditional threat-based approach can be simply adapted. There is clear synergy in extending the same process to cover both types of uncertainty – if the project team is already setting aside time and effort to deal with threats, it can use the same time to identify and proactively manage opportunities as well, and gain twice the benefit. Both efficiency and effectiveness will be enhanced, and the chances of project success will be significantly improved when opportunities are identified and captured. The alternative is a failure to deal with opportunities proactively, which will guarantee that only half of the benefits of risk management can be achieved.

The future of risk management, at least as it is applied to projects, seems clear. Following the advice of leading guidelines such as the APM PRAM Guide, project risk management will focus on proactively addressing both threats and opportunities, in order to avoid problems and enhance benefits, and so ensure that project objectives are achieved. In this way, the position of risk management as a key contributor to project and business success will not only be maintained, but its importance will increase still further.

The future is risky, but risk management can help!

Recommended references

Hillson D. A. 2003. "Effective opportunity management for projects : Exploiting positive risk." Published by Marcel Dekker, New York, US. ISBN 0-8247-4808-5

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