Silver linings in every cloud

by Dr David Hillson, director, Risk Doctor & Partners

This is the second article in our new Risk Doctor series written by Dr David Hillson. Last month he asked, 'When is a risk not a risk?'. This month he deals with the concept of risk and opportunity.

Although many people still view risk only negatively ('risk' is the same as 'threat'), leading thinking and practice in project risk management includes both upside opportunities as well as downside threats within the same risk process. This means that the word 'risk' describes uncertainties which if they occurred would have a negative or harmful effect, and the same word also describes uncertainties which if they occurred would be helpful. In other words, there are two types of risk: threats and opportunities.

Figure 1: Typical risk management process

Accepting this in principle is one thing; using it in practice is another. The traditional risk process illustrated in Figure 1 (initiate, identify, assess/analyse, plan responses, implement, review) can clearly be used to handle both threats and opportunities. But people who have only used this process to identify and manage threats sometimes have problems extending it to deal effectively with opportunities. And the difficulties start right at the beginning: how can we identify opportunities?

Finding opportunities

The first step is to be clear about what we are looking for: events or circumstances which might or might not occur, but which, if they did happen, would help us to achieve our objectives; for example, allowing us to work smarter, faster or cheaper. There are at least four types of opportunity that we should look for:

Some opportunities arise from the absence of threats. If the bad thing does not happen we might be able to take advantage of something good instead. For example, if poor industrial relations do not lead to a strike, we might be able to introduce an incentive scheme and turn the situation round from negative to positive.

Other opportunities are the inverse of threats. Where a variable exists on a continuous scale and there is uncertainty over the eventual outcome, instead of just defining the risk as the downside it might also be possible to consider upside potential. For example, where the productivity rate on a new task is unknown, it might be lower than expected (a threat), or it might be higher (an opportunity).

We should also remember secondary risks, which are introduced by implementing a response to another risk. Sometimes by addressing one risk we can make things worse (the response creates a new threat), but it is also possible for our action to create a new opportunity. Avoiding potential delays to my car journey by taking the train might also allow me to do some useful work during the journey.

Lastly, we must not neglect 'pure opportunities' which are unrelated to threats. These are simply unplanned good things which might happen. For example, a new design method might be released which we can apply to benefit our project. Or a new recruit to the team may unexpectedly possess a skill needed to solve a problem. This type of opportunity needs to be actively sought out, requiring fresh thinking and awareness of how potential additional benefits might be created.

Opportunities cannot be managed unless they are identified. People familiar with identifying threats can start with these, then ask whether their absence or inverse might present an opportunity. Planned risk responses should also be examined to see whether they open up new possibilities to help us achieve our objectives. But 'pure opportunities' must not be forgotten, since these often present the greatest potential upside of all.

Opportunity identification = scope creep?

Some worry that proactively seeking opportunities in our projects may result in scope creep, as a result of looking for extra, unplanned benefits in addition to those already defined in the agreed scope. Pursuing these optional extras might distract attention and effort from the original objectives, and could even be counter-productive.

For example, while we are trying to enhance an existing product we might discover a gap in the market for a completely new product. Is this a genuine opportunity to be pursued within our project, or is it just potential scope creep?

To answer this important question, consider how we deal with a threat where the potential negative impact would be outside the scope of the project. We don't automatically take responsibility for addressing this threat within our project, thinking that if we identified it then we should manage it. Instead an out-of-scope threat is (or should be) escalated to someone outside the project who can decide what to do, perhaps the project sponsor or someone in another part of the organisation.

In the same way, if we identify an opportunity which is outside

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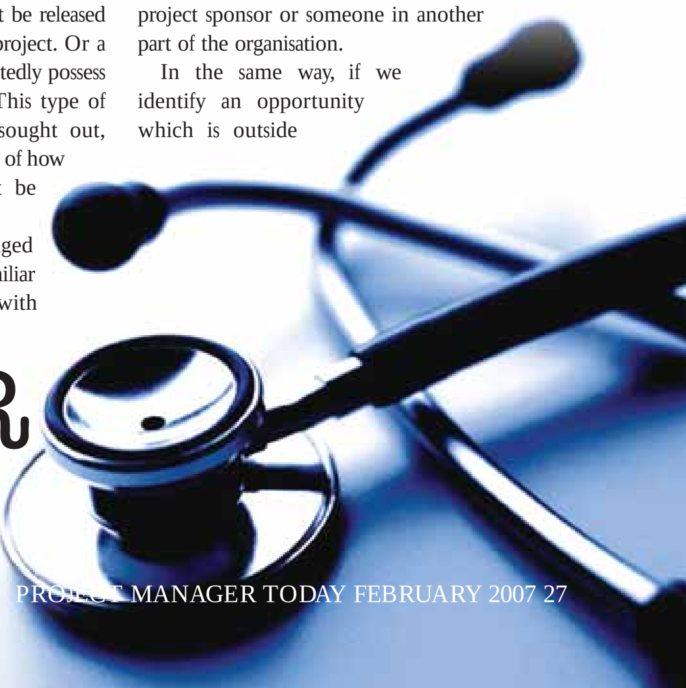

the boundaries of our responsibility, we cannot just decide to include it in our project, which would indeed be scope creep. Instead we should escalate the out-of-scope opportunity to someone who is able to decide whether and how to address it.

The only risks which should be managed through a project risk process are those which could affect a project objective. Any threat or opportunity where the potential impact is outside the agreed project scope should be escalated. This ensures that these types of risk do not automatically result in scope creep, although, of course, a positive decision could be made to change scope to include a particularly good new opportunity or to avoid a serious wider threat.

Instead of worrying about scope creep, the search for project opportunities should consider anything that might help us reach the agreed objectives. We are looking for ways of working 'smarter, faster, cheaper' within the existing project scope, and not trying to change the scope – unless the organisation positively decides to do so.

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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