

## **Improving Project Performance Through Risk Management**

*This issue, Director General of the Institute of Project Management Ireland Ed Naughton, addresses how risks should be managed in order to avoid project delays.*

We all know that many projects are completed with costs and completion dates that exceed their targets considerably. Of course, this has a direct and deleterious impact on profitability as well as the achievement of business goals such as penetration and competitive advantage. Clearly, to be competitive, an organisation must be proactive in managing the risks to successful achievement of the cost and schedule objectives for its projects.

So the critical issue is, simply, 'how well does an organisation perform project risk management?' For most organisations today, the answer is, surprisingly, not very well! Many reasons may exist for this state of affairs:

- Quantifying risks could lead to non-funding of the project
- Client doesn't want to spend the time and energy
- Client doesn't believe the risks are real anyway
- Client wants a simple plan
- The organisation culture supports a 'can do' attitude - emphasising risk may label you as a negative thinker

When we plan a project, we are attempting to predict what will happen in the future; what we will produce, by when, for how much money. Prediction is always fraught with uncertainty. Our estimates are usually wrong because we cannot accurately predict the future. This is why we need risk assessment - it helps us to manage the uncertainty of the future.

### **Acceptable Risk**

Before we start risk planning, we need to know how much risk is acceptable. The reason this question is important is that it usually costs time or money to reduce risk and we need some guidance as to how much time or money the organisation is willing to spend in order to reduce uncertainty and ensure success. The level of acceptable risk for a specific project is represented by a term called the risk limit.

The risk limit represents the maximum amount of risk that the organisation is willing to tolerate in not meeting the customer's acceptance criteria. Both consultants and contractors frequently trade less profitably for less risk.

### **Risk Planning**

During planning, the project team identifies individual risks and then rates each risk for the impact it will have on the project and probability that it will occur. An overall risk rating is assessed for the project as a whole and this rating is compared to the risk limit. If the rating is higher than the risk limit, then risk must be reduced. Risks are reduced through countermeasures, which are actions that prevent or reduce risk. Risk reduction activities and we monitor the environment to see if there are any new risks on the horizon

that we hadn't anticipated during planning. If new risks are identified, we may need to make changes to our project plan.

Finally, during close out, we assess what we have learned from our risk assessment process and make recommendations for improving it next time around.

### **Project Performance**

In summary, project risk management offers a great opportunity to improve project performance dramatically. The amount of work needed to implement the project risk management process is considerably less than that devoted to other project variables such as cost, schedule, or quality, yet the benefits are equally great.

The greatest challenge to implementing project risk management lies in changing corporate culture. However, once this is done, and risk management becomes routine, it will add greatly to the probability of project success.