Winning with Projects

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Business and organisations are based on operations which are repeated tasks, day by day, week by week. Beyond that, organisations change over time – not be chance, but mostly based on the implementation of a series of decided and prioritized projects.

Where operations are continuous, the hallmark of a project is that it has a defined target as well as a finite timeframe within which to meet this target. After that, the project is closed – which is not the case for operations.

To win with projects, these need to be managed well. Not just in terms of process and resource management but also in term s of managing the uncertainties related to the project. Hence an explicit and systematic approach to project uncertainty management is pivotal.

Project risk management is used by many project leaders in some way or form, yet projects fail frequently despite risk and opportunity management is not a complex thing to do. It is based on four generic questions:

- What can happen?
- How important is that?
- What do we do about it?
- How do we monitor this?

These questions may be simple, but they are by no means easy to respond to – and to ensure a systematic approach, they need to be linked to a framework of prerequisites. The blow deep dive into these, one by one.

What can happen

As a base for identifying risks and opportunities related to the project, one needs to know the target of the project – what do we wish to achieve by this project. As such, implementing an IT system is not a target. Simplifying/improving/cost reducing processes may be targets which are reached by implementing an IT system.

The project target must be SMART; i.e.

- **S**pecific so that there is no doubt as to what the project is aiming for
- **M**easurable to know if/when we are successful and when we have failed
- **A**ttractive to drive motivation amongst those involved
- **R**ealistic to avoid pursuing the impossible
- **T**imed as projects are recognised by being temporary in nature

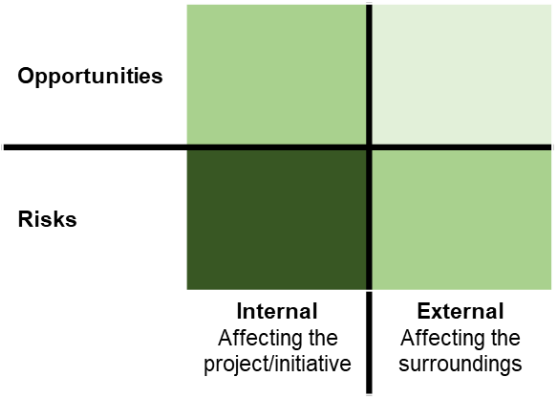
This may be so obvious it almost hurts, yet experience shows that the target description of many projects fails on at least one of the above.

If you are managing a project without a truly SMART target – push back to get one.

Then the identification process needs to be holistic to optimise the value of the effort. Having the project manager and project owner/sponsor discuss what may hamper delivery on time/on budget is not enough.

The identification process need to include all stakeholders, often in a brainstorming session, to ensure adequate holism. It needs to address whatever is upstream and downstream from the project as well as relevant supporting processes and general business conditions affecting the project and its implementation.

It must include risks as well as opportunities and it must address what emerges from the project as well as what may happen to the project. This 2x2 comes to mind as a frame of reference.



This means including whatever new risks and opportunities are imposed on the rest of the organisation by dong this project. In example: Outsourcing a process to a low-cost country may be good for cost reasons – yet, if the company has a high-end, high-profile brand, the same outsourcing may hamper the company's reputation to the extent the project is disastrous to the company despite perfect implementation.

Many project teams may find it hard to identify opportunities on top of an often quite ambitious target, but assuming the target is 100, the risk manager may ask "what would it take for the result to be 150 or 200" – look explicitly for such "needed truths" and see if they can be made true and benefitted from.

How important is that

The next issue is about prioritizing the many risks and opportunities as there will surely not be resources to and value in handling all of the issues listed. To do that, a framework of assessment is needed as ones needs to know what constitutes e.g. "high impact".

Often a 5x5 scale/rating is used as a 3x3 is seen as too coarse to work effectively, and a 7x7 or higher is more complex for stakeholders to handle than truly valuable. That said, some projects have the data and capability to use gradual scaling which is great, when possible.

On likelihood it is all about percentages of certainties this will happen for the project. Using a 5 scale, experience advocates a logarithmic type scale of:

- Very high — Probable, over 50% likelihood, yet not planned
- High — 30% - likely but surely not expected
- Medium — 10%
- Low — 3% - unlikely
- Very Low — 1% or less. Very unlikely, but not to be ignored

This has proven adequate for many projects, although some, most of which are related to e.g. human safety operates with much lower percentage boundaries. You would never fly if the "very low" likelihood of a crash was just "less than 1%" and we hence had 100 commercial airline crashes a day.

The impact scale must be linked to the target. If the target is time and money, then there must be impact scales on time and money. If the target is some metric of customer satisfaction, there need to be a scale on that.

Then look at the target – for simplicity, we may use money. Target is 100. What will it take for a risk impact to be unbearable … say 50. This is then our definition of Very High is 50, and the scale goes:

- Very High 50 or above
- High 25
- Medium 10
- Low 5
- Very Low 2 or less

Note that the factor 2 is applied only conceptually. 2,5 or 1,25 will indicating an accuracy there is no foundation for.

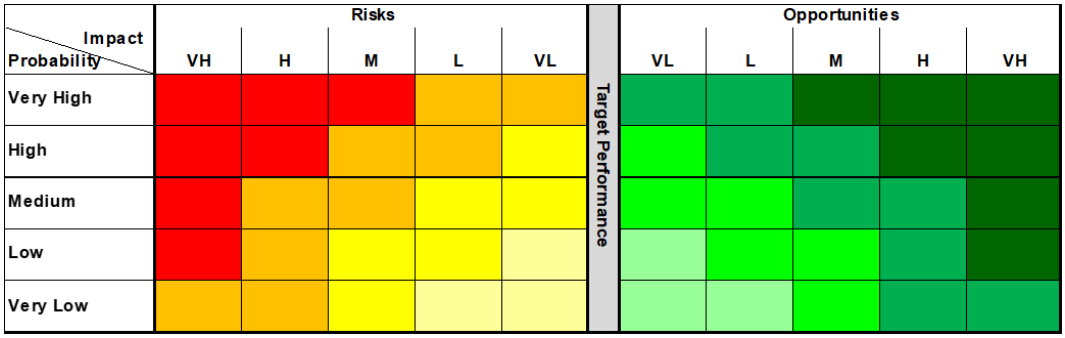
Looking at time … say the project is a 12-month plan. How much delay is unbearable … it may be 50% as the financial target, i.e. 6 months – it may be more for another project and less for a third. Projects that replaces one "thing" with another are often less sensitive on time, whereas as e.g. manufacturing capacity expansion may be extremely time-sensitive as delays leads to loss of sales and earnings.

Using the same factor 2 approach, we get Very High = 6 months or more, High becomes 3 months, medium is 6 weeks, low is 3 weeks and very low is less than a week or so. The important balancing issue is that "high is high", i.e. losing 25 financially is as bad as delaying 3 months and vice versa.

Using such defined scales ensure a reasonably balanced assessment of the different risks. There should be a defined scale for each target parameter, and it is recommended to assess every risk and opportunity on each scale (some which may be not relevant) to get the full description and prioritization of this. This is known to drive good discussions among stakeholders and risk owners.

In the assessment, impact and likelihood are interlinked, and hence address impact first. "On a bad day (for a risk) how big an affect may this have on our performance". Define that – and assess it, <u>and</u> include the narrative behind the assessment. This narrative serves as a frame of reference for steering committees, reference groups and other relevant parties.

The narrative is also a micro-scenario for the risk, and a base for assessing the likelihood of the risk. The likelihood is not about how probable it is that the risk will happen at all – but how likely the risk will happen to the extent it will have the described or similar impact.



Based on these, now reasonably aligned, assessments, a prioritization can be made for further treatment of the risks and pursuit of opportunities. Remember that successfully pursuing an opportunity of 30 is as effective to overall performance as effectively mitigating a risk of 30.

Note that the heat-map is two-fold as it includes both risk and opportunities.

It is recommended that assessments of key, i.e. 1st priority, risks and opportunities are challenged and analysed/validated prior to invoking further effort.

What do you do about it

The next issue is what to do about the risks and opportunities. To do that, one needs to know the risk tolerance, i.e. the limit of when to accept a risk, and when not to do that – as well as when do we actively chose to do something to pursue an opportunity.

This is actually where the rubber hits the road and the real management of risks and opportunities happens. Without this step, none of the others make sense – yet, without the other steps, this step will likely be ineffective as well as inefficient.

The simple heat map can be used to describe that 1st priority risks are those where the combination of impact and likelihood is not acceptable. 2nd priority may become those, where risk taking is not desirable, but can be accepted and 3rd priority are accepted as is.

This means that risk mitigation MUST be applied to 1st priority risks, whereas 2nd priority risks are mitigated to the extent sound cost/benefit justifies this – and hence as a business decision, not one of risk management. Treating a 3rd priority risk decidedly is a waste of resources.

A similar/parallel description can be used for opportunities, and be aware, the heat maps need not be symmetrical.

When addressing what is being done, it is recommended to add a narrative as to how/why it is believed that this action will mitigate that risk or help pursue that opportunity.

How do we monitor this

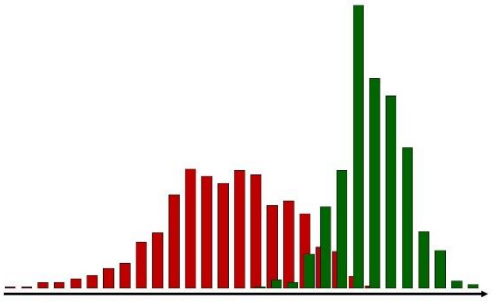
An old statement is "*what gets measured gets gone*". Many have been quoted for this, yet, it is believed the original statement dates back to the 1500's.

How does the organisation track performance? Seamlessly embed the risk and opportunity efforts and outcomes in this reporting/monitoring – do not add anything along side what is being used as most people will be ti busy to read yet another report.

Also, ensue the risk/opportunity reporting is focusing on the parameters of the project target. It rarely helps a steering committee that "Vendor A may be late in delivery", whereas a statement like "the project may be 3 months delayed by late delivery from Vendor A" is likely to capture the attention of the committee.

Consolidating the risk and opportunity portfolio can (only) be done using Monte Carlo simulation, whereby the risk and opportunity portfolio is simulated a large number of times – each time calculating the result and hence being able to show the likelihood of meeting the targets – based on one or more risks and opportunities materialising – as they will in real life.

You may get a chart like this, where the red distribution of outcomes is prior to risk management, the green is including the risk and opportunity management.



In this example, emerging from a “real life” project, the tallest green column represents “meeting target”.

Prior to risk and opportunity management there was a mere 4% likelihood of meeting/exceeding the target. With risk management, there was a 60% likelihood of meeting/exceeding targets. On completion, the outcome of the was 30% over target.

Summing up

Systematic risk and opportunity management of a project (or a business for that matter) needs to be founded on a framework leading to the below summary table.

Framework Element	**Target** Knowing what success and failure looks like is pivotal to risk management	**Scales** Knowing how to rate is needed to consistently assess risks/ opportunities	**Tolerance** Knowing your risk willingness is needed to define when and how to act on a risk/opportunity	**Governance** Organisation, and processes are needed to ensure effective management
Process Element	**Identification** Based on the strategy or the endeavour or project … “what can happen” Be holistic and systematic	**Assessments** Define and describe the potential impact, as well as the likelihood of that This drives the prioritization	**Handling** Define and execute of pre-emptive as well as responsive actions Ensure the net exposure is within your risk tolerance	**Monitoring** Report within your current performance reporting setup Focus on what matters to the business

Good luck, remembering the Louis Pasteur quote “*luck favours the well prepared*”.