

Proactive Risk Management

An Argument for Project Risk Management Maturation

By

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Executive Summary

In the continuing series of risk management maturity concepts presented by the principals of MCLMG, LLC in Alexandria, VA, this white paper provides one of the first discussions on implementing a proactive risk management (PRM) program in most projects regardless of venue or type of deliverable physicality: atoms or bits. ^[1]

The nature of PRM is such that it can improve the chances for a project's successful outcome by focusing the attention of project management towards potential areas of risk that if triggered could negatively influence the project's scope, budget, or schedule. The need for a mature, proactive risk management program is the part of the authors' developed Risk Management Maturity Model (RMMM™) that is currently serving several of MCLMG's clients. The RMMM™ indicates that a risk management program progress through several stages of maturity of which the final stage is that of being PROACTIVE. This white paper leaps across the intermediate stages to illustrate the benefits and success-enhancing activities of a PRM and how it can positively impact a project's success profile.

Intended for project sponsors, key stakeholders, and project management-level team members this white paper argues the need for a proactive risk capability given today's uncertain business environment. The recent BP Gulf oil spill disaster supports this proactive perspective since proactivity is no longer a "nice-to-have" option -- it is a project success imperative.

The outcomes of a PRM program are simply the improved, effective application of project resources to the mitigation of risks, and not the appliance of issue response plans. Remember,

"It is better to mitigate a risk than attempt to survive an issue." CJ Stoneman, 2010.

Finally, proactivity is not a choice of large, well-funded organizations – it is a necessity for survival in today's world of challenging project management for organizations of all sizes and venues.



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What is being proactive encompass?



The base definition of the word proactive has the connotation of dealing with a potential future event before it becomes a reality: the very essence of project risk management. Being proactive in risk management is the ultimate level of maturity in risk attitudes and characteristics. The authors have developed a five-stage maturity model for risk management of which the highest stage is in fact that of being proactive.

Proactivity means that the PRM program actively seeks out risks before they trigger into becoming issues as defined in the reference section of this white paper. A risk is a future event with the potential of negatively impacting the outcome of a project while an issue is a triggered risk. To understand the difference between a risk and an issue is therefore a necessary first step in changing one's mindset toward becoming proactive.

The next concept of proactivity is the benefit of being proactive: it is more effective from both a cost and schedule perspective to deal with a risk than to attempt survival of an issue. Risk management supports the idea that projects mitigate risk but respond to issues as highlighting the basal difference between risks and issues: risks are future events while issues are present realities. From a business resource utilization focus, dealing with a future event, which has not impacted the business activity only the potential to do so, is more effective in terms of resource expenditure than the actual costs associated with responding to an issue.

Thinking beyond proactivity lead to the questions of "what are the characteristics of a PRM program," or "how can such a program can be identified, cloned, and applied to many projects?"

What are the characteristic of a PRM Program?



The characteristics of a PRM program derive from the goals and objectives that a PRM program is attempting to produce by virtue of its implementation within the confines of a project. The PRM program provides the project manager with the foresight of potential problems that are still unrealized, but can, if triggered, impact the successful outcome of his or her project. This foresight can also be applied to the advantage that opportunities, future events that can positively impact a project, can offer to the project manager.

A PRM program exhibits the following characteristics that form the acronym 'MITIGATE' in keeping with the correct action a PRM program exhibits towards a risk:

- Mature (m)
- Inquisitive (i)
- Thorough (t)

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- Investment-oriented (i)
- Goal-seeking (g)
- Articulated (a)
- Transitional (t)
- Effective (e)

Mature: *the characteristic of a PRM program that illustrates the understanding that identified risks are not bad, but unidentified risks are the hidden destroyers of project successful completion.*

Inquisitive: *a PRM program that actively investigates, discovers, and details its project's risks and issues.*

Thorough: *a PRM program that extensively continues risk identification throughout the project's phases.*

Investment-oriented: *a PRM program that seeks to deal with risks before they become issues with more significant impacts on both budget and schedule.*

Goal-seeking: *a PRM program that keeps its activities focused on the mitigation of risks – reduction of the risks Risk Equivalent Value (REV™).*

Articulated: *a flexible, adaptable PRM program that is attuned its project's dynamic environment.*

Transitional: *a PRM program that becomes increasingly involved as the project's details are revealed through the process of progressive elaboration.*

Effective: *a PRM program that improves a project's chances for success by improving its own processes and procedures.*

These characteristics mark the PRM that is dynamic, growing, and maturing in its goal to effectively, and continuously reduce the possible impact (a risk's REV™) on a project's chances for success.

How does being proactive apply to project risk management?



The concept of proactivity stems from not waiting for an issue to occur, for example the recent BP Gulf oil spill disaster, but thinking about all the possibilities of future events that could negatively impact a project's outcome, vetting these risks, and then mitigating the risks over a determined impact level based on the project's risk tolerance profile. Proactivity means that risk team members do not view risk management as a "fire alarm" concept, but more as the "fire prevention" mentality – take steps to reduce the number of risks, not just increase skills of dealing with issues.

Proactivity also addresses the need to be continuously investigating how a project's risks are changing as the project itself matures and progresses. As the project aligns with its target of successfully providing "fit-for-use" deliverables to its stakeholders and end users, the PRM program will alter and adapt its

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approach to risk management to parallel this project maturity with its own changing processes and procedures. A project's risk environment is never static, but one of sometimes be-wildering dynamics.

Finally, proactivity means that a PRM program seeks to improve its own effectiveness in dealing with risk mitigation by:

- Implementing risk mitigation earlier in the project's lifecycle,
- reducing the severity of high REV risks, and
- "short-circuiting" risks that have triggered by dealing concisely and definitively with the issue

This implies not letting the issue drive the response, but seeking to control the issue's impact on the project's outcome.

How to set up a PRM program



A. Obtain senior management support for a PRM program

As with all change or progress, many are not in concert with the change agent. In the case of establishing a PRM program, the forward-thinking PM or Risk Manager will need the help of his or her senior management due to the impact that a program of this nature will induce. As an over-arching activity in any project, a risk management program can impact and/or intrude into all areas of the project – an idea that may not sit well with many project managers. Since deliverable-based risk can be found almost anywhere in a project, the risk program has the ability to be intrusive, even nosy when attempting to identify and manage risks that can impact the project's deliverables. In experience, many project managers not of the proactive risk mindset see a proactive risk program as an out-of-place or inappropriate intrusion. The role of senior management, therefore, is one of directed leadership.

Senior management once convinced that a PRM program is necessary and even valuable must ensure that the imposition, word chosen correctly from the perspective of the normal project manager, of a PRM program is in the organization's best interest. All projects will need to be participants since a project manager not convinced of the need for a PRM program can stifle its installation thereby losing many of the benefits it would have otherwise have brought to the project. Project managers in most organizations have special abilities and authorities that can prevent many changes from occurring. Such project authority is necessary since these capabilities are used to prevent needless changes or modifications; however, when not convinced of the value of a PRM program, they can be brought to bear on slowing down or even stopping the PRM program's installation. Senior management is the only authority that can override these project management attitudes.

B. Accomplish mindset change through PRM training for project managers

Experience of the authors' has illustrated that most project managers do not possess the mindset needed to support a PRM program implementation. Many take it as a threat to their authority since a PRM program is the only project artifact with the ability to provide oversight into the inner workings of a project's "work-in-progress." Quality assurance audits are usually not fine enough in oversight perspective to accomplish this task. The risk program can and should be utilized to highlight risks

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regardless of the source even if it is the project manager. Experience again has shown that this capability of a PRM program can be disconcerting to the risk-immature project manager.

An example of this mindset change needed in many projects is the lack of risk program ownership by either the project manager or their designed assignee. In very large, complex projects where an assigned risk manager is part of the project team directly reporting to the project or program manager, it is still the duty and responsibility of the primary manager to ensure the vibrancy of their risk program. This cannot be delegated or diminished. Projects that have required the expertise of the authors' "trouble projects support team," have almost always discovered a commonality for failure in that lack of ownership and direct control of the project's risk management program by the primary project manager.

To implement the necessary mindset alterations, education on the part of the project manager and risk manager can be one of the most effective methods for achieving a PRM mindset awakening. As detailed earlier, being proactive is not a normal mindset for many project management professionals. Business schools teach using a case study methodology that is mostly oriented to reading and understanding what has already occurred; while this not intended, the concept most business students' tend to obtain is that of the accounting perspective – looking at what has already happened. Being proactive means to change this "need for reports and charts" to seeking out what may not be readily evident or available in easy to consume performance artifacts. Remember, if you are able to track and chart an activity's performance then you are looking at the history of the activity, not its future. Proactive risk management activities need to think about the future since all risks existence in the future, not the past. This is the primary mindset change needed to support PRM.

C. Establish goals and objectives for the PRM program

As with most project management activities, the establishment of clear goals and objectives for a PRM program is a necessary first step. Even though working with risks is wrangling with future potentials and not present realities, understanding the focus of the PRM program by defining its goals and objectives can set the foundation for success or continued failures.

Clear goals and objectives have several important characteristics that must be met in order to ensure the PRM program is effective, and understood. They are:

- Goals and objectives must be DEFINITIVE,
- Goals and objectives must be MEASUREABLE, and
- Goals and objectives must be COMPATIBLE.

These simple three characteristics are crucial to the success of any program, but even more important to a PRM program that seeks to deal with future events that may never occur.

D. Understand the parameters of the project

As every project is unique by the definition of its own deliverables being distinct and separate, a PRM program aligns itself to the parameters of a project that define its existence. These project parameters include, but are not limited to:

- Project type: IT, manufacturing, new product development, construction, etc.,

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- Project size: measured by either budget, team member count, stakeholder population, etc.,
- Project complexity: is the project a simple document creation or does it seek to deliver a hydroelectric dam in a remote area of the globe?
- Project novelty: how new is the project or its deliverables to the project management organization?

Understanding the parameters of a project will define the PRM program's proactive nature. Construction projects by their very nature have learned to be extremely proactive as the design of thousands of independently manufactured components must come together in unity in order to achieve the project's goals and objectives – the design and manufacturing of the A380 Airbus jumbo jet, for example. A PRM program must understand the context and environment of the project on which it seeks to perform its primary goal and objective of risk mitigation and REV reduction.

E. Determine PRM program roles and responsibilities

The very nature of being proactive demands a PRM program defines its member roles and responsibilities to remove confusion about lines of leadership, authority, and action. Waiting until a risk potential becomes a reality to define the roles of risk mitigation activity is not the essence of proactive risk management. As in the firefighting analogy, all roles must be clearly delineated, discussed, understood, and even practiced in order for the training to take over once risk potentials trigger into reality. Again, using the BP Gulf oil spill disaster as an example, had those involved considered that an ocean floor collapse of the blowout preventer was a risk potential of immense REV, practice of containment and correction could and should have been implemented and on-site.

Roles and responsibilities tell PRM program team members how to think about being proactive by the nature of their duties. Seeking to identify risks is a responsibility assigned to all project team members, not just the "risk gurus" as is often evidenced by the authors' post-mortem inspection of failed projects. Risks can and do source from almost all areas of a project's lifecycle and activity list. Defining complete and consistent roles and responsibilities can circumvent much of the confusion that accompanies a triggered risk's entry into the project's environment.

F. Define PRM processes, tasks, procedures, and activities

In similar fashion to defining PRM roles and responsibilities, a PRM program should define its workflow environment by describing the working relationships between processes, tasks, procedures, and activities. The best practices for project management indicate that there is a definite relationship between the workflow components of any well-designed and well-planned project environment. These relationships are related in the following order:

1. Processes contains tasks that implement definitive work containers and structures;
2. Tasks contain workflow procedures that lead to the completion of work product or deliverables;
3. Procedures are combinations of individual activities that can be scheduled, managed, priced, and controlled in order to implement the workflow and achieve the work component's successful outcome;
4. Activities are sequenced, assigned, and tracked (duration and cost) "units of work" (UOW) completed in order to progress towards successful completion of a particular project procedure.

PRM program workflows require the same detail and management as does any project work environment and these relationships are elaborated as the information for their completion becomes more evident over time. This is the application of progressive elaboration for PRM programs.

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G. Develop PRM value measurement artifacts

In alignment with the PRM program goals and objectives (see Section C above), the PRM program must establish metrics for identifying, tracking, and reporting on its progress towards achieving its objectives. There are many methods for tracking performance, but in risk due to the nature of dealing with future events, the performance metrics can be somewhat elusive.

Regardless of how a PRM program's effectiveness is measured, the metrics must take into account the following PRM program parameters:

1. Ability to identify risks,
2. Ability to mitigate risk potentials,
3. Ability to score risk severity and occurrence parameters, and
4. Ability to respond to an issue's impact.

These metrics should be able to roll-up across different aggregates of project activity such as the project phase level, project level, program level, portfolio level, and even the enterprise level. The authors' have developed a customized Risk Value Management (RVM™) methodology that accomplishes these measurement demands. Using the contact information provided, please contact the authors' for more information on how the RVM can provide these measurement facilities to your projects and programs.

H. Monitor and control the PRM program

While starting is half finished, monitoring and controlling a PRM program is the capstone that ensures the PRM program so artfully implemented using the previous delineated steps continues to provide the benefits that proactivity can provide to a project. A PRM program as with any other project management process needs to be watched, measured, altered and improved to achieve its effective application to the project's success. Monitoring a PRM program involves a daily routine of watching for many aspects of the program, but is not limited to the following:

- Risk identification process continues in all aspects of the project's lifecycle and phases,
- Risks are being actively "worked" by their risk owners,
- Risk mitigation strategies are being detailed and implemented for high risk potentials,
- Risk artifacts are being updated and maintained in a timely fashion,
- Risk reporting is open, honest, and complete,
- Risk triggers are being monitored and tracked for possible realization,
- Issues response plans are being effectively instituted and managed, and
- Issues are closed out with dispatch and decisiveness.

How to Maintain a PRM program?



A. Follow the PRM plan

The PRM plan when properly developed and reviewed is the foundational artifact for implementing the PRM program for a project, program or even a portfolio. Since the PRM should be part of the normal planning activities, the old PM adage of "plan your work, and work your plan" becomes the standard for

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the PRM plan. In other words, to keep a PRM program on track, the project manager supported by the risk manager should follow the articulated PRM plan to keep the activities focused and on point.

As the authors have reviewed the collection of activities necessary to render a risk program proactive, they have also noted that few project managers know how to plan their risk programs to the point where weaknesses and incomplete information might present an injury to the success of their project. Projects have failed due to a single risk being improperly mitigated or missed; thus, making the necessity of following the PRM plan more of a requirement. Plans make little sense if they are for show or just “shelf-ware.” Design, develop, and write your PRM plan so that it is used, not just used as a doorstop.

B. Audit the PRM Activities

Project management environments need periodic reality checks to gauge both progress and effectiveness. The PRM program audit is a simple yet effective method to accomplish progress and performance checks. The audit is objective, definitive, measureable and reportable.

As the authors have stated before in this paper, a PRM needs to be watched, measured, altered and improved to achieve its effective application towards the project’s success. An effective PRM program will need this audit in order to ensure the identification, tracking, and implementation of mitigation strategies is strong and vibrant. There is a systematic process of objectively obtaining and evaluating the maturity of risk program and whether or not the information being collected to implement a mitigation strategy is complete and sound. There are critical pieces of information that need to be gathered for each risk to determine a full mitigation strategy. Missing even one piece of needed information can result in a hiatus that could result in overlooking a risk that might trigger to an issue thereby halting or severely hindering a project.

By auditing the maturity of the risk program, a project manager can objectively discover weaknesses in the PRM program. By not implementing an assessment program that includes periodic audits, the project manager is shirking his/her duty of providing the required environment of due diligence and/or compliance that ensures the competency of the PRM program.

C. Measure the PRM against its desired outcomes

Using the PRM program’s stated outcomes, baseline the program’s progress to keep key stakeholders and team members informed of the PRM program’s progress and achievements. Projects need checks to maintain focus and direction without which the PRM program can slowly move out of control bands reducing the benefits and support an on-target program can bring to a project.

The authors have developed a Risk Maturity Assessment Audit (RMAA™) that can measure the level of maturity and completeness of the PRM program by using the following measurement characteristics:

- Quantitative – not subjective,
- Definitive – rule based; weights are based on best practices,
- Measurable – repeatable and reproducible, and
- Reportable – comparative and actionable.

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A risk program that is proactive without measurement evidence leaves out a critical piece to the potential success of a project. Efforts expended in implementation of a measured performance solution to keep a PRM program working smoothly and effectively are resources judiciously and efficaciously applied. The authors have witnessed programs that have chosen to ignore the need to periodically inspect their own activities, and it is these same projects that consistently find themselves behind the schedule and over budget. There is more than a mere causality link between the maturity to measure one's progress and the actual success that such a reviewed project enjoys.

D. Implement necessary changes to improve the program

From the periodic audits and baseline comparisons, project management can uncover PRM program wanderings. Upon identification of these off-track conditions, remedial actions can be designed, tested, and implemented. Of special note is to ensure that the level and severity of the remedial corrections fit the identified areas of improvement so as to not overwhelm or under-correct the needed readjustment.

One of the characteristics of a maturing risk management program towards the achievement of proactivity is the willingness and choice of the project management team to be both accurate and open about the need for program improvement. Without the understanding that every program needs to be continuously improved, the program and project will stagnate thereby reducing its chances for a successful outcome.

Conclusions and Summary



Proactivity is both cost-effective and valuable in a risk management program since dealing with mitigation is considerably more efficacious than trying to “play catch-up” after a known risk has triggered into demanding reality now forcing the project management team to react. The authors tell their clients almost daily that:

“It is better to mitigate a risk than attempt to survive an issue.”

CJ Stoneman, 2010.

References



[1] Lohnes, Paul and Wilson, Cheryl. Developing a Risk Value Management (RVM)[™] System. MCLMG. Release on request and identification of recipient only.

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[4] Lohnes, Paul and Wilson, Cheryl. Risk Maturity Assessment Audit [™], MCLMG, LLC, 2011.

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[5] Lohnes, Paul and Wilson, Cheryl. Developing a Risk Value Management (RVM)[™] System. MCLMG. Release on request and identification of recipient only.

Trademarks

MCLMG reserves the following evidence of company preeminence:

RVM as “Risk Value Management”

RMMM as “Risk Management Maturity Model” **REV** as “Risk Equivalent Value”

RMAA as “Risk Maturity Audit Assessment”

Authors’ Biographies

For more information and project management philosophy-choice consulting, please contact the authors with your questions or comments:

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Paul H. Lohnes has been active in project management for over 25 years beginning soon after he left the US Navy in 1981. After obtaining his BS (CS) and teaching as an adjunct at the UC Berkeley’s Extension University for 6 years during which time he completed his MBA (Finance/Op Mgmt) at Golden Gate University, San Francisco, Paul started up a private consulting practice in project management of technical and computing projects. His clients over the years have included Fortune 100 companies in telecommunications, computing, networking, and finance in addition to developing and delivering over 500 technical and management seminars to over 10,000 attendees around the world.

Mr. Lohnes holds the PMI’s Professional Project Manager (PMP) certification. Mr. Lohnes assists his client base in the MD/VA/WDC area in the maturing of their project and risk management programs while identifying aspects needing attention and remediation. Mr. Lohnes continues to develop quantitative risk management, auditing, and indexing tools that he uses in service of his clients and customers.

Finally, Mr. Lohnes is actively involved in the PMI’s new community of practice endeavors with both blogging on troubled projects/project rescuing, and risk management topics and the mentoring of new project management consulting practitioners.

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Ms. Wilson has an impressive resume and work history both in and around the Washington, DC area. She is a USAF veteran and a graduate of the University of

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Maryland with a Bachelor of Arts. Ms. Wilson is also a holder of a Master's Degree in Management Information Systems from Strayer University.

Being one of the first women to obtain the Risk Management Professional certification from the Project Management Institute, Ms. Wilson is in high demand both as a project risk consultant and risk analysis team leader. She has held several, high-profile project management and business analyst positions at firms contracting with the US Government.

In 2010, Ms. Wilson formed her own management consulting firm, CWP Management Group, in support of her clients in providing risk analysis and management services for sophisticated organizations realizing the value of proactive risk profiling activities.

Mr. Lohnes and Ms. Wilson are currently completing a joint-doctoral program in the area of risk management to include their ground-breaking efforts in assisting organizations' with the maturing of their risk programs to higher levels of effectiveness and project success impact.