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Project Value Delivery's Golden Rules for Opportunity and Risk Management

Project Opportunity and Risk Management is a specific discipline that requires following a set of principles. We have distilled those principles down in a set of Golden Rules that can be easily be used as a reference – and as a way to check if your Project Opportunity and Risk process and setup indeed responds to the basic requirements that will ensure that your projects remain protected.

In all instances,
The main objective of Opportunity and Risk management is to enable
the Project Manager and its management to take decisions derived from the organization's current knowledge and understanding of reality.

From this broad objective, a number of Golden Rules describe the basic requirements of Opportunity and Risk management.

Golden Rules for Opportunity and Risk Management

In all instances the following 16 Golden Rules need to be followed:

1. **Team Responsibility:** The Project team as a team is responsibility for the proper implementation of the Project Opportunities and Risk Management process, and in particular, for the identification and brainstorming of the Opportunities and Risks, their prioritization, and for implementing subsequently the actions that are identified.
2. **Focused action-taking is essential** when it comes to mitigating risks or amplifying opportunities. There needs to be a proper prioritization process in place to focus energy and effort on a very limited list of topics.
3. **The earlier action is being taken, the most effective and the less onerous it will be**. It is essential to start an effective Opportunity and Risk management process as early as possible during Project preparation and tender stage. Even during execution stage, early decisions are always more impactful and less onerous.
4. **Continuous Scanning, Monitoring and Review**: to ensure Opportunities and Risks are continuously identified and communicated appropriately, add Project Opportunities and Risks discussions as a standing topic to the team's regular meetings.
5. **Use all opportunities of contractual relationships with stakeholders (Client, Suppliers, Subcontractors) to transfer/ share Opportunities and Risks**. Opportunity and Risk management is essential at both the contracting (Main Contract) and procurement stages (contracts with suppliers and subcontractors).
6. **Avoid double-dipping and do not confuse Allowances and Contingency**, they need to be identified separately and double dipping needs to be absolutely avoided between those to avoid excessive conservatism. Allowances should correspond to costs that are known will be incurred, but their exact value is not known; all Opportunity and Risk considerations should be concentrated in a single contingency for the entire Project.
7. **Contingency is a reserve that aims at protecting the Project in a reasonable manner. It should be owned by the Project Manager or above**. Most Projects should not use the contingency (either in cost or time) and should release it; some will use the contingency to compensate for unexpected events. The amount of contingency is a matter of judgment and needs to be benchmarked for the particular type of project.
8. **Schedule risk analysis should be aiming at improving the resilience of the schedule**, and not necessarily at predicting the completion date. This requires a lot more insight into the workings of the schedule in terms of understanding where the Critical Path lies and how it could move during Project execution.
9. **In Projects, "time is of the essence", most of the cost risk is deeply related to schedule slippage**. Focus your risk mitigation efforts on preserving the schedule.
10. **Cost contingency calculation and Schedule Risk Analysis should be done on models with limited complication** (20-40 lines for the cost model and no more than 200 activities for the simplified schedule) to ensure consistency of results between Projects. The result of Monte-Carlo based calculations depends on the size of the model!
11. **The main Project killer risk is common cause risks, consequential impact and/ or snowballing risks.** Avoid these risks by sound root cause analysis of identified risks. Effectively evaluate the potential impact of an event through its possible consequential impacts.

12. **Low probability, high consequence risks (catastrophic risks) are historically those that derail Project-driven organizations**. Substantial focus should be devoted to preventing such catastrophes that cannot be effectively dealt with through conventional Project Opportunity and Risk management methods.
13. **On Large Projects, focus on minimizing complexity as much as possible** as a way to make the outcome of the Project more predictable.
14. **Project Portfolio level Opportunity and Risk management is required**. This deals in particular with shared resources and Cost of Opportunity. The intrinsic protection afforded by the Project portfolio depends on an upper Project size limit, on the diversity of the Projects in the portfolio, and on the avoidance of 'long tail' effects.
15. **Keeping the ability to cut your losses in case of emergency is essential**. This is why termination clauses for Owners and strong Limit of Liability clauses for Contractors are an essential component of Project risk management.
16. **Do not neglect the psychological issues related to managing risk,** in particular the phenomenon whereby people tend to minimize failure with the hope of a miracle, thereby delaying the realization that a Project is sinking fast, and the much required cut-loss actions. We recommend that you have an unequivocal loss threshold beyond which projects will be stopped.

These rules will be further explained and expanded in the next White Papers and they also form the basis of our new Handbook.

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