

Stop Rolling the Dice...

...by Starting to Proactively Manage Your Risks

Four Principles of Proactive Risk Management



"Stuff" happens

There are many good reasons why innovative, new product development efforts have risks. There are often market risks, technology risks, supplier risks, execution risks, and others. Unfortunately, in many product development organizations, "stuff" happens on a regular basis. Risks are realized frequently with all of their resultant bad consequences. In these organizations, teams scramble to recover, management hopes that it won't happen again but then some other "stuff" happens. Schedules slip, costs go up, credibility suffers, and sometimes it all adds up to project failure. When it happens once, that's unfortunate. When it happens time and time again, that's a competitive disadvantage that holds your company down. It can't be written off as the natural consequence of creating new products.

The best firms don't always hit their plans - but they do hit them much more often than not. How come "stuff" doesn't happen to them? One of their differentiators is that they have learned to proactively manage risks. Another is that risk management isn't solely the job of any one person. All the cross-functional expertise that the project can muster is brought to bear to identify potential risks and avoidance and/or mitigation strategies. Finally, they have gotten adept at low overhead ways of tracking and avoiding and/or mitigating the risks that matter.

Organizations that tend to miss their plans typically take a much more ad hoc approach to risk management. Who has time to worry about things that we hope won't happen? They may sense some of the risk areas and try to plan the project to avoid them. When they can't, they ignore them and their plans assume they'll be fortunate. If they have someone responsible for all of the management of the project, dealing with risks is just one more item on the laundry list of things that person has to worry about. Besides being overwhelmed, the project manager often doesn't know enough about the market, the technology, the suppliers and all other aspects of execution to see all of the potential key risks until it's too late. These companies often have

stories about infamous projects that bounced around like pinballs hitting bumpers, taking months or years longer than they had hoped because "stuff" happened.

If you find that "stuff" happens way too often in your product development shop, here are 4 principles that, when adopted, will help you start accomplishing things on time much more often.

1. Risk Management is a Team Sport

Product development efforts can be complex because they: involve multiple groups or different organizations that need to cooperate; require long value chains or supply chains; include a high degree of technical complexity like many interfaces or brand new components; take many stages of iteration or integration; or require customer intimacy or a nuanced understanding of an emerging market. One poor project manager can't possibly foresee all the significant risks, never mind plan to avoid or mitigate them. For all but the most trivial development efforts, as much energy should be put into identifying, classifying and planning to avoid or mitigate risks as is put into that schedule everyone frets about. If you don't proactively manage your risks, that schedule is usually a nice work of fiction. You need to tap into all the expertise you can to unearth potential problems before they happen. If the concept of a "team" working together on this sort of thing is foreign, turning risk management into a team sport is a great place to start.

2. Manage Risks Early and Often

The best companies start identifying prospective trouble areas early on in their concept or planning stages. Early identification of potential show stoppers could result in: a different product architecture which avoids a problematic interface; early interactions with prospective customers on tradeoffs they are willing to make to actually develop a product that will hit its market window; different make/buy/ally decisions for parts of the product development effort; or other choices which concentrate the risks so they are manageable instead of spread everywhere where it reduces your odds of success. Include an early view of your key risk areas in those decisions that might otherwise be made by default to just "do it like we did it before."

Once a team has initially identified potential risks, they are not done. Keeping the risks to project success in the foreground and up to date is an important habit. In terms of management emphasis, this is just as important as the schedule. Experience can help make this a very low overhead habit that pays enormous dividends.

3. Not all Risks are Equal

When people start paying attention to risk management, they sometimes use a net with such tight stitching to capture them that they get bogged down in minutia - sometimes creating plans to avoid and or mitigate a lot of things that really don't matter. Here's a simple way to avoid that. When your cross-functional team has identified a risk, take it one step further and quickly assess 2 things: the likelihood it might happen and the impact on project success if it did. I often use a 1 to 5 scale for both of these dimensions and put the risks on a matrix. If it's a small list of risks, there may be only 2 categories: those you worry about and those you don't. If it's a longer list, you have more categories like:

- **Primary Risks** - High priority risks that threaten the core objectives. There should be active prevention plans and risk mitigation plans put in place and monitored for efficacy.
- **Secondary Risks** - These are risks that could be quite damaging but are less likely. These should be actively monitored. Mitigation plans may be warranted to lessen the impact.

- Tertiary Risks - These are likely to occur and have real impact on some of the objectives. Check at times to be sure the impact isn't more serious. Look for straightforward avoidance methods.
- Low Risks - Simple monitoring and control strategies should be employed. Check at times to be sure that neither the impact nor likelihood have escalated.
- Ignore risks - Impact and likelihood are so low as to not warrant any active attention. Check occasionally to be sure that neither the impact nor likelihood have escalated.

You want to make sure that the work you put into any particular risk is proportional to the likelihood and severity of adverse impact that the risk can have on project success.

4. Avoid or Mitigate?

Some forecasted risks will realize themselves. In those cases, hopefully you already working to mitigate any potentially adverse effects. Obviously identifying and tracking risks is necessary. For each risk that is critical enough to plan for, explicitly strategizing on whether to mitigate it (lessen the impact on project success should the risk happen) and/or avoid it (lessen the probability of the risk occurring) is important. Executing risk mitigation and avoidance strategies is not "extra" work. It's part of the project - the cost of making challenging projects predictable. These judgment calls are part of the plan and are no less important than keeping track of the schedule. A risk matrix can be an invaluable tool in helping decide whether to put your emphasis on monitoring a risk, avoiding a risk, mitigating a risk or working to both avoid and mitigate.

Summary

If your product development risks are informally managed, you might find that adding some simple, proactive risk management disciplines can help your performance greatly. Remember that you want to unlock the knowledge and ideas about risks from a broad cross-disciplinary group to maximize the likelihood you have captured as many of the significant ones as you can. You should do this early since it may impact some very fundamental approaches to the project. You should do this often and in a low overhead way since this is a dynamic situation. If you just follow these steps, you will rarely be caught completely off guard.

As you identify and monitor your risks, figure out the significance of each risk based on its likelihood and potential impact so you focus on the important things. Having done that, implement strategies to lessen the probability and/or the impact of the most significant ones. Baking these approaches into your plan will help make you much more predictable.

When first instituting a more proactive risk management approach, you will encounter objections that it is even more work. It is MUCH LESS WORK than reacting to risks that you didn't see coming. Resist the temptation to stick your head in the sand and hope that serious risks won't hit next time. If you really don't have the capacity to manage risks, you actually don't have the capacity manage the project and need to fix that. Making risk management activities as important as scheduling will pay enormous dividends in helping your projects, and therefore your business, become much more predictable. You will also shorten your overall product development cycle time once your plans are no longer getting clobbered by all of that nasty "stuff".