

How Much Risk Management is Enough?

Preston G. Smith*

There is a limit to how much effort you should invest in managing the risk in a project. Before starting, you should recognize that you cannot do a perfect job, and anything approaching perfection will become expensive. Instead, your objective should be to obtain as much protection as you can relative to the effort you invest.

For each risk you consider, you will spend time identifying it, analyzing it to understand the facts that tell you how serious it is, prioritizing it against other risks in the project to see if it merits an action plan, and if so, creating and executing the action plan. If you attempt to manage all the risks you can discover for the project, you will spend all of your time managing risks and have no time left to complete the project! Therefore, the prioritization step is very important, because this is where you make these difficult decisions. Deciding to take action on a risk depends on several factors:

- Its overall seriousness, which is a combination of the loss you will suffer if it occurs and its probability of occurrence
- If it can be considered a catastrophic risk; can you afford to let it happen even if its probability of occurrence is very low?
- Whether you can construct a cost-effective plan to resolve it

Although you can make some of these decisions based on the numbers, in the end each decision is a judgment call of the project manager or the complete project team.

It is instructive to compare project risk management with insurance. You can buy high levels of insurance to provide a great deal of protection, but this will become expensive. In the end, you must ask yourself how much protection you need to balance the discomfort of the risk against the discomfort of paying the high insurance premiums.

Sometimes you can swing the balance point greatly in your favor. We did this recently in an agile software development project. We were able to complete what would have been about two days of risk management work in only 1.5 hours by taking advantage of the special characteristics of an agile development project. These characteristics included

- A short iteration loop (four weeks), which means that we did not have to look far into the future for risks
- Frequent feedback, as we reassessed our risks soon during the next iteration loop
- A close-knit team that internally possessed all of the important knowledge about the project

* New Product Dynamics