




"UPSIDE RISK : What is it?"


David Hillson



"Upside risk" : What is it?





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Risk : First principles

Risk ≠ Uncertainty

True or False?

Risk = Uncertainty that matters
(i.e. can affect *objectives*)

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What is a risk event?



"An **uncertain** event or set of circumstances that, should it occur, will have an **effect** on achievement of project **objectives**"

(APM PRAM Guide)

Risk connects uncertainty with objectives

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2-dimensions of risk



Risk has two dimensions :

1. **uncertainty**
2. **effect on objectives**



"probability"

"impact"




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Two-dimensional risk




- ▶ Uncertainty estimated as "probability"


- ▶ "Impact" assessed against objectives
 - ▶ But what kind of impact?
 - ▶ Could be either **positive** or **negative**
 - ▶ Uncertainty that **helps** as well as uncertainty that **harms**
 - ▶ **Opportunities** as well as **threats**



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Assessing two dimensions





- ▶ **Uncertainty** : how likely?
 - ▶ "*probability*"
 - ▶ HIGH/MEDIUM/LOW
 - ▶ % probability of occurrence (1-99%)
 - ▶ **Effect on objectives** : how bad? or good??
 - ▶ "*impact*"
 - ▶ time delay *or saving*
 - ▶ extra cost *or reduction*
 - ▶ performance shortfall *or enhancement*
 - ▶ reduced business benefits *or improved*

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Definition debate

- ▶ Current debate :
 - ▶ Risk is neutral, with undefined impact
 - ▶ Risk only has negative impacts, i.e. same as threats
 - ▶ Risk can include both threats and opportunities



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Growing consensus


- ▶ RAMP Guide : "A **threat (or opportunity)** which could affect adversely (or favourably) achievement of the objectives..."
- ▶ BS 6079-1 & 2 : "Combination of the probability ... of a defined **threat or opportunity** and the magnitude of the consequences"
- ▶ PMI® PMBoK® 1996 : "A discrete occurrence that may affect the project for **better or worse**"
- ▶ PMI® PMBoK® 2000 : "An uncertain event or condition that, if it occurs, has a **positive or negative** effect on a project objective"
- ▶ New APM PRAM Guide : "Uncertainty can affect achievement of project objectives either **positively or negatively**. The term "risk event" is therefore used to cover both uncertainties that could hinder the project (**threats**) as well as uncertainties that could help the project (**opportunities**)."

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T-O relationships




- ▶ **Opportunity** is the **absence** of **Threat**
- ▶ **Opportunity** is the **inverse** of **Threat**
- ▶ **Opportunity** is **different** from **Threat**

- ▶ Secondary risks
 - ▶ Primary threat : Secondary opportunity
 - ▶ Primary opportunity : Secondary opportunity
 - ▶ Primary opportunity : Secondary threat

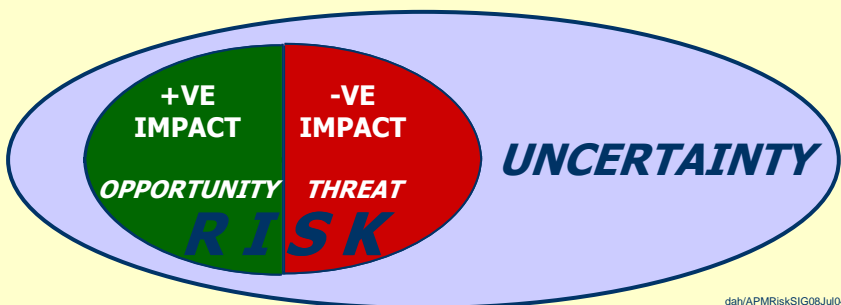
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Conclusion



- ▶ Risk is the subset of uncertainty which matters
- ▶ If it were to occur, a risk event would affect one or more objectives
- ▶ The effect can be negative (the risk is a **threat**)
- ▶ The effect can be positive (the risk is an **opportunity**)



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So what? !!

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Implications of broad definition

- ▶ If **risk** includes **opportunity** ...
 - ▶ Need to change *thinking*
 - ▶ Need to change *language*
 - ▶ Need to modify *process*

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New thinking

- ▶ Not only
 - "What could go wrong?"
 - "How bad could it be?"
 - "Things can only get worse"
- ▶ But also
 - "How could we do better?"
 - "What would we do if we got lucky?"
 - "Can we make our own luck?"



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New language

- ▶ Not only
 - Avoid
 - Transfer
 - Reduce
 - Mitigate
- ▶ But also
 - Exploit
 - Share
 - Maximise
 - Enhance
- ▶ Not
 - "Risk is a potential problem, to be minimised or avoided"
- ▶ But rather
 - "Risk is the effect of uncertainty on objectives, to be managed appropriately"



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New process




- ▶ Extend existing risk process to deal with opportunities explicitly
- ▶ Simple development from what is familiar
- ▶ Improved techniques for
 - ▶ Risk identification
 - ▶ Risk assessment
 - ▶ Risk response planning




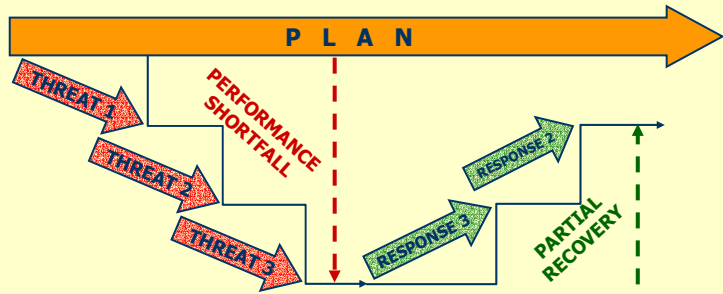
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Problem if not inclusive



- ▶ Only addressing **threats** not **opportunities** :
 - ▶ One-way street for responses 
 - ▶ All roundabouts, no swings
 - ▶ Guaranteed failure?



The diagram illustrates a linear process starting with a large orange arrow labeled 'PLAN'. Below it, three red arrows labeled 'THREAT 1', 'THREAT 2', and 'THREAT 3' point downwards. A vertical dashed red line labeled 'PERFORMANCE SHORTFALL' connects the end of the 'PLAN' arrow to the start of three green arrows labeled 'RESPONSE 1', 'RESPONSE 2', and 'RESPONSE 3'. A vertical dashed green line labeled 'PARTIAL RECOVERY' connects the end of the 'RESPONSE' arrows back to the 'PERFORMANCE SHORTFALL' line, indicating a feedback loop that does not fully return to the original plan.

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Benefits of inclusive approach



- ▶ No additional process overhead
- ▶ Increased efficiency (2 for price of 1)
- ▶ Extension of familiar approach
- ▶ Opportunities are identified & managed proactively
- ▶ "Two-way street" 
- ▶ Increased chance of success
- ▶ Avoids "*Risk = bad news*" syndrome

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Yes,
but how?

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Helpful Hillson references



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- ▶ *Proceedings of the 4th European Project Management Conference, London, 4-6 June 2001*
- ▶ Also in *Int J Project Management*, Volume 20 Number 3, 235-240, 2002
- ▶ www.risk-doctor.com/pdf-files/opp0601.pdf

▶ **Book : "Effective Opportunity Management for Projects : Exploiting Positive Risk" (ISBN 0-8247-4808-5)**

- ▶ Published November 2003 by Marcel Dekker, New York
- ▶ www.dekker.com/servlet/product/productid/4808-5
- ▶ or Amazon.com

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