



## THE COST OF MANAGING RISK

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david@risk-doctor.com

As the Christmas season approaches, many will be considering the cost of celebrating the festival. Especially in the West, Christmas is now characterised (sadly) by commercialisation and materialism, imposing a significant cost burden particularly on families. Is it worth it? As we seek to manage risk effectively, questions of cost also arise since risk management is not free. There is no “zero-cost option” for risk management, and the costs to be paid fall into three categories : one-off, ongoing, and occasional.

First are the **costs of entry**, paid once to establish a risk management capability. The primary cost here is for the “Three T’s” : techniques, tools and training. Any organisation wishing to manage risk has to invest in the necessary infrastructure to support the risk process. Techniques and procedures must be developed and rolled out. Tools to support the process must be bought or developed. And staff must be trained to use the techniques and tools effectively. If the entry cost is not paid, risk management remains merely a good intention, with no capability to deliver.

The second type of costs are for **ongoing maintenance**, to preserve an effective organisational risk management capability. It is important to keep the risk process fresh and up to date. Without ongoing development of the risk process, there is a danger of losing effectiveness. Risk management is a developing discipline, and new techniques and tools emerge regularly. Even the conceptual basis continues to grow as new ideas become accepted into the mainstream. Effective risk management requires refresher training to maintain and develop staff skills, as well as revitalising the process to incorporate recent developments and new approaches. On average an organisation should aim to refresh its risk process every 2-3 years to stay up to date.

Lastly there are the costs associated with **managing risk on projects**. Each project faces a unique risk challenge, and managing this incurs costs for assessing risk and for addressing risk.

- *Assessing risk* : These are the costs of implementing the risk process on the project, including spending time and resources in risk identification workshops or interviews, performing risk assessments and analyses, attending risk reviews, writing risk reports etc.
- *Addressing risk* : This covers the cost of executing risk response plans, those actions which were not originally in the project plan, but which are deemed necessary in order to deal appropriately with identified risks. Proactive actions are needed to avoid or reduce threats, and to exploit or enhance opportunities. Contingency and fallback plans must be put in place in case risks occur. These costs would not have been incurred if risks had not been identified, but they are necessary to optimise the chances of achieving project objectives.

If an organisation is serious about managing its risk, it must be prepared to pay these costs. This is particularly true of projects, which tend to have fixed budgets. Risk management will never be effective if it is seen as an optional zero-cost extra. The cost of assessing risk must be included in the overall project management budget, and there must be adequate contingency in the project budget to cover the costs of addressing risks.

Of course there is a cost-benefit relationship from investing in risk management. Risk management delivers a wide range of benefits to the organisation and to its projects, clients and staff. Although it is hard to measure the return on investment for risk management, it is certain that no benefits will be realised unless the organisation is prepared to pay these costs. Indeed, not paying the cost to implement risk management exposes an organisation to another unnecessary cost – **unmanaged risk**. This includes threats which turn into problems which could have been avoided, as well as missed opportunities which could have delivered extra benefits.

At Christmas time, most families do not regret the cost when they see the joy on their children’s faces. The answer to the question “Is it worth it?” is a definite yes. Hopefully the same can be said of risk management – if we pay the cost we will reap the benefits.