

Broadleaf

**Developments in
project risk management**

PMI Melbourne Chapter

**DEVELOPMENTS IN
PROJECT RISK MANAGEMENT**

Dr Stephen Grey

Associate Director

Broadleaf Capital International Pty Ltd

www.Broadleaf.com.au

ph +61 3 9787 0520

PMI Melbourne Chapter

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Dr Stephen Grey
Associate Director
Broadleaf Capital International Pty Ltd
Grey@Broadleaf.com.au
ph +61 3 9787 0520

Introduction

Background

Director Region IV of PMI Risk SIG

Past secretary of UK APM Risk SIG

Two of Broadleaf's personnel on the committee for the
Standard AS/NZS4360

Developments

PMI PMBOK Chapter 11

Positive risks

Quantitative methods

Risk transfer

PMBOK Ch11

Revised draft under consideration

More structures to support process (RBS)

Include opportunities as well as threats

- Process description and language

- Responses (Treatments) to suit opportunities

Clarifying qualitative / quantitative distinction

Clarifying text in general

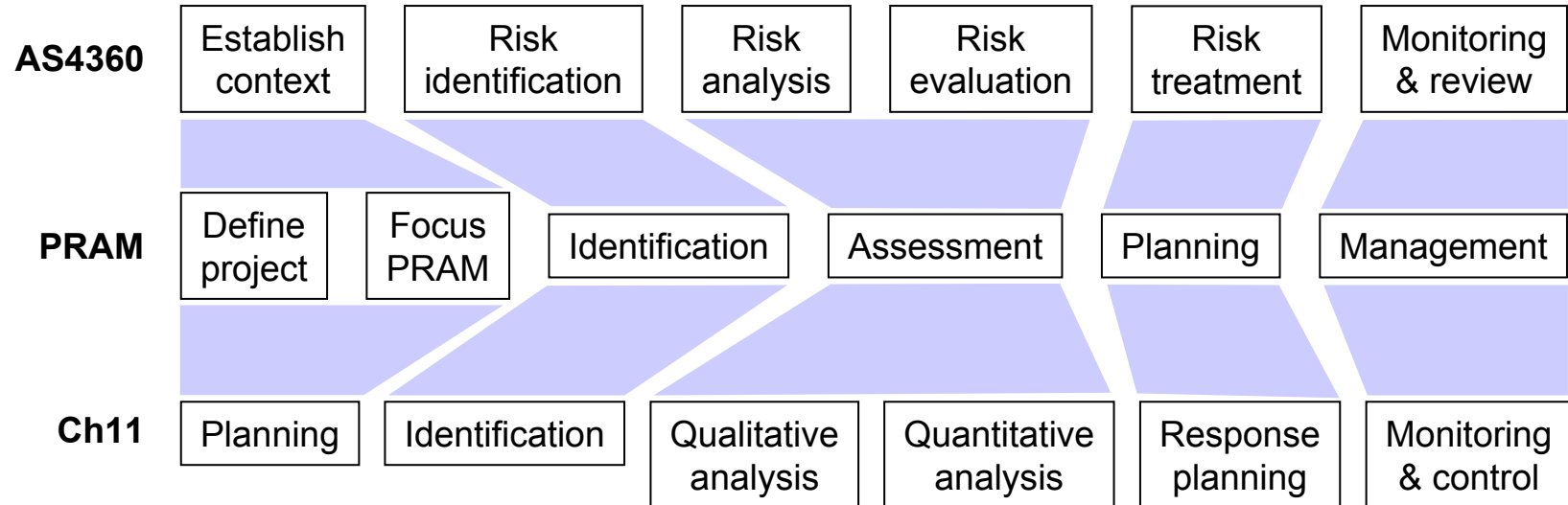
Removing typos

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Developments in project risk management

Overall process unchanged

Approximate relationship



Positive risks

Should risk management look at opportunities?

Avoid entirely negative outlook

Recognise two faces of uncertainty

Enhance outcomes

Should we call all uncertainties “risks”?

Risk and opportunity management

Risk management

Negative risks associated with an undesirable outcome

Positive risks with doing better than forecast

Positive risks

Process

Thinking through a project systematically

Exploring uncertainty

Might as well consider opportunities as well as risks

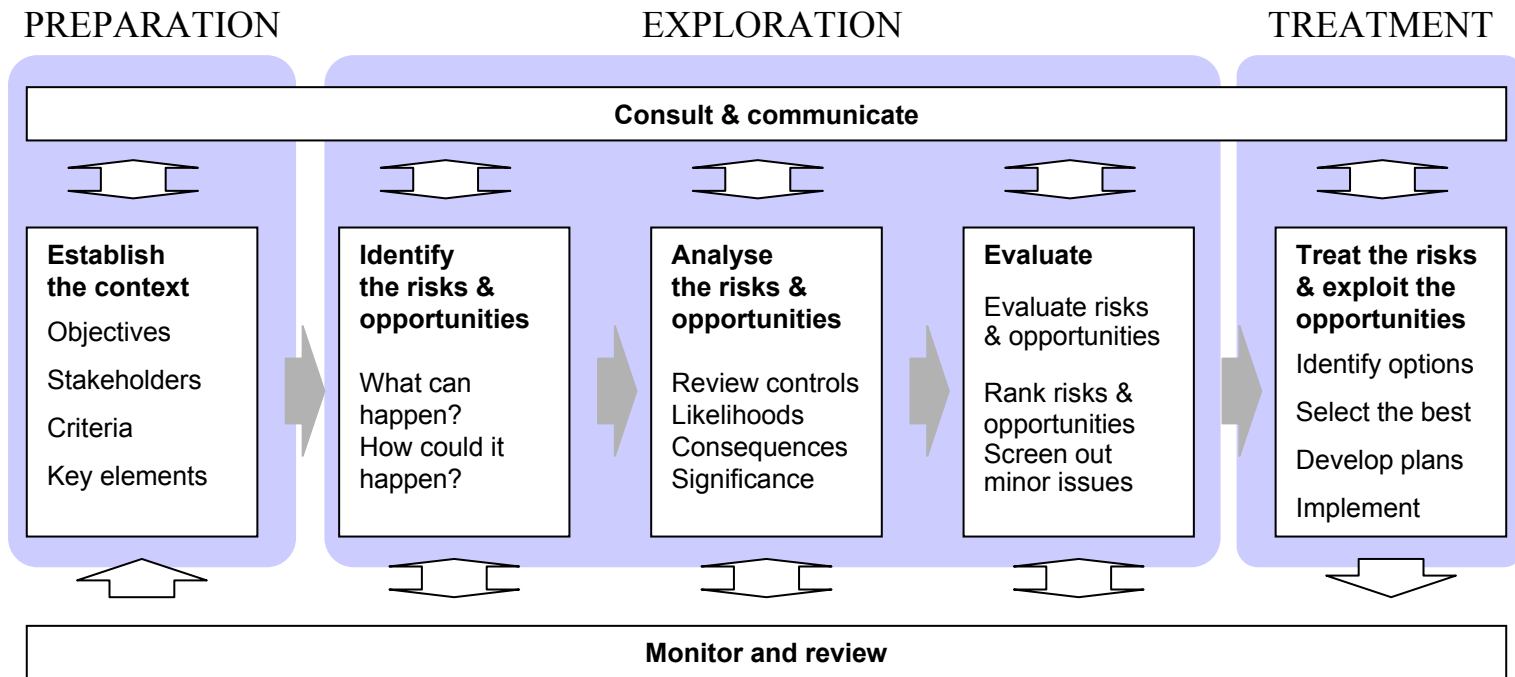
Often more efficient to do both together

Not always acceptable

Language

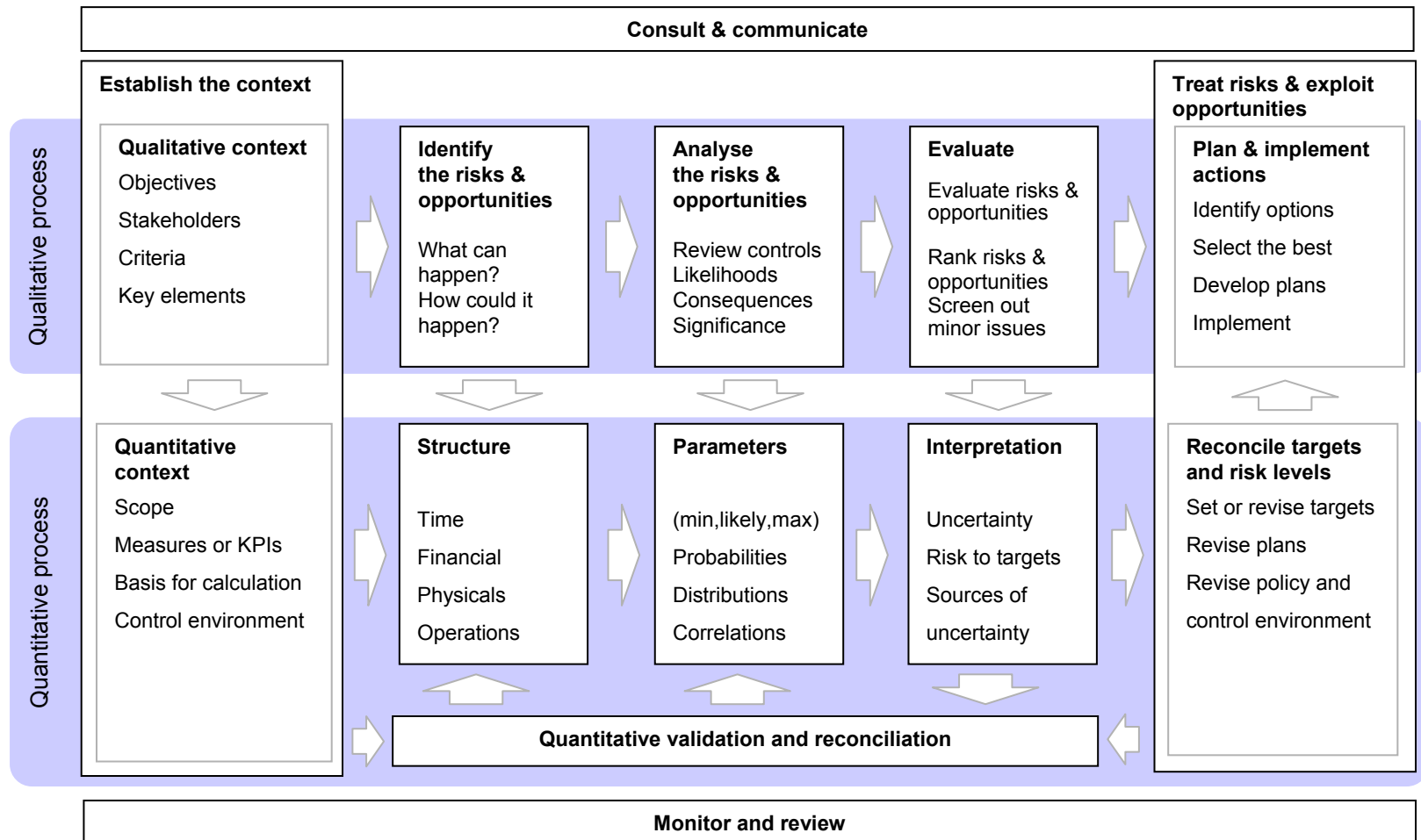
Not really important so long as it is clear

AS4360 for risks and opportunities

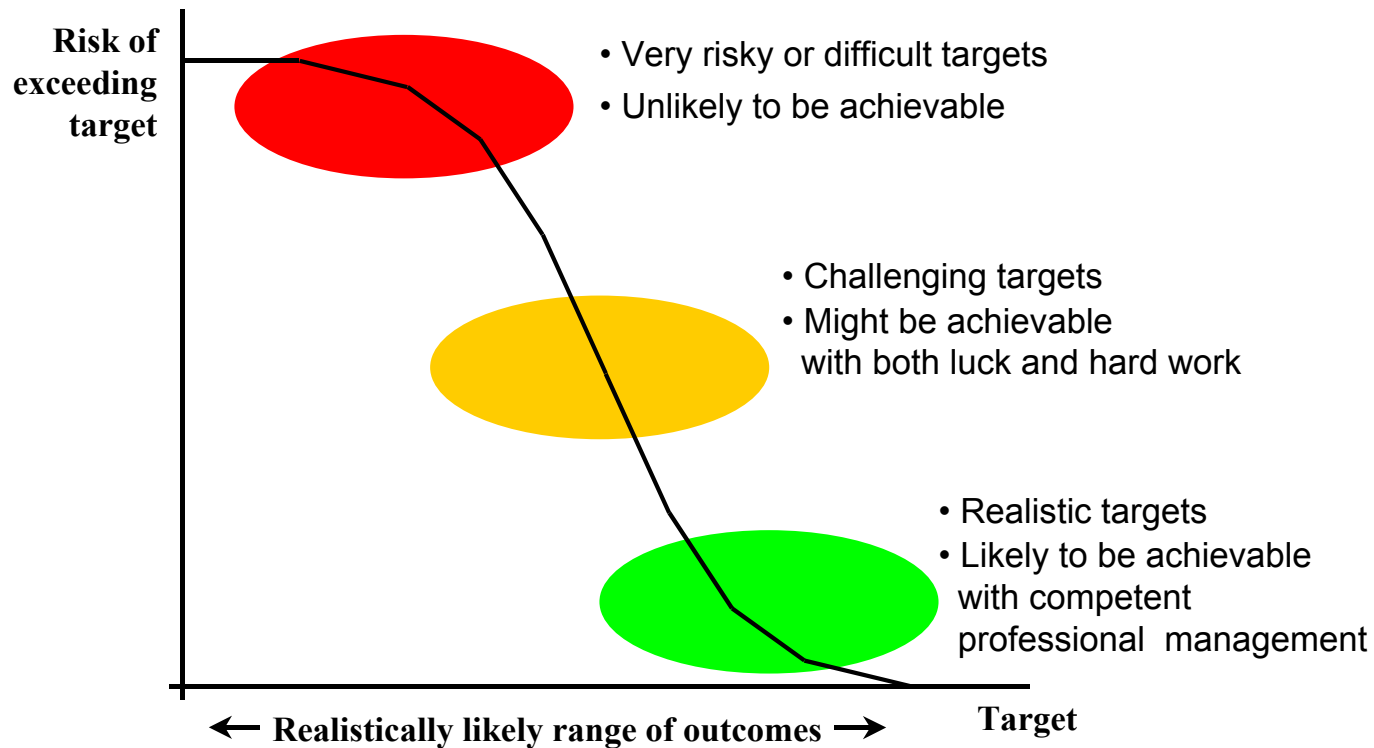


Similar process and language throughout
Slight change to facilitation

AS4360 and quantitative methods



Aggregate quantitative measures



Quantitative analysis in practice

Tools

@Risk, Crystal Ball, Risk+, Pertmaster ...

Very capable and accessible

Relatively inexpensive (from \$1000)

Process

Often ad hoc - anyone can build a spreadsheet

Tendency to settle at inappropriate level of detail

Theoretical mistakes not uncommon

Difficult to plan and estimate development effort

Quantitative applications

Cost-benefit analysis

Budgeting early in life of project/business

Prefeasibility

Feasibility

IPO

Tendering and tender evaluation

PPP / PFI

Public sector comparator

Risk transfer valuation

Project examples

Choosing between a low priced bid with some risks and a higher priced option with less risk

Making a realistic forecast of the cost of a project with limited detailed information

Valuing options

Is it worth spending money up front to be able to change component suppliers mid stream?

Will the more expensive technology help us protect ourselves from problems or gain an advantage in the longer term?

Risk transfer - issues

Definition

Scope and metrics

Enforcement / Realisation

Valuation

Probability x Impact not always most useful

Aggregate quantitative analysis more appropriate

Value as part of a portfolio

Risk transfer - common pitfalls

Incorrect estimates of the other side's cash flows

Assuming the value to the private sector is the same as the value to the public sector

Misunderstanding how one another work

Failure to evaluate the likelihood and impact of default

Overestimating the power of a contract against

The power of sole supplier

The lead time required to bring an alternative on board

Fear of political embarrassment

Project example

Local authority infrastructure development

- 1 General risk assessment
- 2 Base costs from technical specialists
- 3 Risk model linking the two
- 4 Public sector comparator risk adjusted cost
- 5 Tenders' risk adjusted costs
- 6 Changes to risk adjusted costs as risks are reallocated

Benefits

Funding - demonstrate value for money to State Govt

Negotiation - realistic value of risk transfer

De facto competition where there are few suppliers