Project Risk Management

Projects represent the main type of operation in many companies. Project risks are often difficult to manage and too many projects fail. The success of a project can be promoted through good planning and risk management.

Projects always involve risks!

A project is a singular undertaking with an objective, schedule, budget, management and personnel. There are two main types of project:

- **Delivery projects** in which a customer is promised the delivery of a product or a service by a defined date and under stipulated conditions.
- **Development projects** in which, for instance, a new device is developed for a company's own use.

These project types are often combined in SMEs. A typical project frequently calls for some development work or tailoring before the product or service intended to meet the customer's needs, can be delivered.

Projects are difficult and risky because each is unique and so **nearly everything is new**, such as the workgroup, customer or product. In addition, time and money are often scarce!

Projects are also subject to disturbances because there are usually **several projects** in progress in the same company, and they compete in importance as well as for resources – at worst interfering with each another.

Excessive optimism and promises that can't be kept, are often reasons why projects fail.

Principles of project risk management

Project risk management starts with the **identification of hazards** related to the project.

The worst project pitfalls are discussed below. Hazards vary between projects and they need to be considered separately for each project. It may be appropriate to ask an **external specialist** to participate in risk assessment.

Analysing customers' needs

What does the customer really want? What is the most important thing for them? It is not always evident who the real customer is. From the perspective of long and short-term risks, all parties should be considered.

Realistic promises and agreements

Projects often fail due to excessive optimism e.g. a one-year project is promised to be done in six months. Can the customer's needs be met? Are your sales personnel sufficiently well briefed on the actual features of your company's products and their realistic potential for tailoring and development?

Concentrate on the formulation of agreements. If problems arise, **the signed contract is what counts**. If no formal agreement has been made, problems concerning arrangements between companies are solved on the basis of commercial law. Commercial law concerning disputes is frequently hard on the supplier, which is usually the role of an SME. **A formal contract should always be made** and the supplier should ensure that they understand and accept the responsibilities/obligations of the project.

Terms of agreement that limit the responsibility of the supplier may include a requirement for insurance.

Finance

Is the company able to finance the project? Does the agreed invoicing schedule ensure solvency during the project? What are the risks concerning the required loans? Will the investment bring in sufficient profit? Has the customer's credit status been checked?

Supported by: European Agency for Safety and Health at Work

Project management

Does the project have an experienced manager with effective techniques and procedures at his or her disposal? Does the manager also have **the support of the company's management as well as the authority and resources** to manage the project well? What will happen if the manager leaves to work for another company or falls ill? What precautions have been taken?

Personnel

Does the project have competent personnel? Do they have the time to work on the project? Does the project jeopardise other agreed deliveries?

Have the project's **key persons** been identified – the company's, the customer's and the subcontractor's, as well as those of other interested parties? Does the success of the project depend on the expertise and input of a single person? What happens if a key person goes to work for another company (which involves possible information risks) or falls ill? What precautions have been taken to deal with changes in personnel during the project?

Co-operation, communication, co-ordination

Many projects involve other parties, other companies or external personnel. Do they all feel the same way about the objectives and rules of the project?

How important is this project to the parties involved? What **priority** do the parties give the project and how dedicated are they? How have the **schedules** been verified between the parties?

A satisfied customer accepts minor faults in a project.

How well do people involved in the project know each other? Have you worked together before? Do you know anyone who has worked for the new customer before? Have you asked about this person's experiences? Remember that a "yes" in different cultures and by different people does not always have the same meaning!

A project must not fail due to lack of knowledge or failures in communication. How do you ensure reliable and fast **communication** and the management of changes? Reviews are an effective tool in the follow-up of a project's status. Have you agreed anything about reviews?

Personal relations can also jeopardise a project. Are there good inter-personal relationships with the customer, with partners and within the company itself?

Conditions

How well do you know the **conditions required for the project's realisation** and the **terms of delivery** for the end product? How aware are you of the factors that affect the success of the project, such as the regulations, rules of business and other conditions in the target country? Do the conditions for this project differ from those of previous projects? How are the differences accounted for in planning? Do all parties involved understand these conditions?

Unexpected changes in operating conditions can delay a project and its invoicing by up to several months. Does the project plan account for delays caused by, for instance, the customer's problems?

The rules of the home country do not always apply to export projects.

Project end and after sales issues

Projects rarely end with the handover to the customer. A customer may need help commissioning the product, or **continued support** may be required for the use of the product. Are the resources available? What has been agreed in regard to finance? What does the agreement say about ending the project, final payment terms or the settlement of possible disputes? Should you also set deadlines for your own development projects?

Learning

You should **apply appropriately, lessons learnt** from similar projects! After every project, lessons learnt should be recorded and the information distributed to at least those in the company who may face similar situations later on. Evaluation reviews are a good way to gather feedback. Remember, the distribution of information requires extra work!

Identify hazards and manage the risks!

Consider the **central risks** involved in the project before making the agreement, and plan the project keeping the risks in mind. Separate risk management or security plans are often necessary. Use workgroups, specialists and various risk analysis methods as well as sources of information.

Further information

The SME Risk Management Toolkit includes both information and tools for project risk management such as **Work Cards** (business and product risk management, etc.) and **risk analysis methods.**