



TenStep Supplemental Paper

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Should You Factor Positive Risk into Project Planning?

This column discusses a topic that is currently being discussed in some project management organizations, the concept of positive and negative risk.

Some background

First, here is a quick recap of the traditional notion of risk. Risks represent potential events or circumstances that exist in the future that could have a negative impact on your project. They are not problems today (if they were, they would be issues, not risks), but they have the potential to become problems in the future. On the other hand, they are not definite problems. There is a chance that the risk will occur, but there is a chance it will not. Identifying the risks that you need to focus on is a combination of identifying the risk event, determining the potential impact to your project and determining the probability that the risk event will actually occur. When you are done with this exercise, you look for high-risk events and put together a plan to deal with each one.

Let's take an example. Say you have a supplier that you are counting on to provide raw materials to build a prototype. However, the supplier has a union contract that is expiring in the next 60 days. There is a risk that the supplier will have a strike that will disrupt shipments. You need to identify this as a risk, estimate the probability of occurrence (perhaps this will increase or decrease over time), determine the impact to the project if it occurs, and then put together a plan to minimize the impact on the project if it occurs.

Is risk always a bad thing?

Now let's get to the concept of positive risk. After all, isn't everyone supposed to be an intelligent risk taker? Isn't it right to push the envelope? Isn't it better to have tried and failed than to have never tried at all?

These statements get to a difference between how risk is typically identified from a project management perspective, and how it is utilized in culture. The concept of risk in language is broader than how it is typically used in project management. This broader definition takes into account the concept of positive risk, or opportunity risk.

Positive risk

Negative risk is represented by potential future events that could impact your project negatively. In general, they are to be avoided (although there are different risk strategies, depending on the risk we are dealing with). Positive risk, on the other hand, refers to risk that we initiate ourselves because we see a potential opportunity, as well as a potential for failure. This is what we are referring to when we say that we are intelligent risk takers.

Your example of new technology may be a good example. Say that you have a software development project that is scheduled to take 90 days to complete. Your business client would rather the project be delivered earlier, and would get more value if it were delivered earlier, but they understand that 90 days is how long the project will take.



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One of your team members has an idea. If you utilize a new software-testing tool, it is possible that you can deliver the project in 60 days instead of 90 days. If this were a guaranteed solution, you would jump on it. However, there is risk, since it is the first time you have used the tool. There is a lack of expertise and a start-up learning curve. It is possible that if the tool does not work out, the project could end up taking 110 days to deliver. What would you do?

Of course, you don't have enough information to make the decision now. However, this example illustrates the concept of opportunity risk. The business client will accept delivery in 90 days. If you decide to use the tool, it is a risk you are introducing yourself, based on an evaluation of the chances of success, and the impact of success, versus the chances of failure and the impact of that failure. When it is said that we are intelligent risk-takers, it is these types of decisions that are being addressed.

The debate is on

This concept of positive and negative risk is being discussed right now in many risk groups, including the Project Management Institute (PMI). The question they are asking is whether the current concept of risk as being only associated with threats is too narrow a definition. In a recent poll of the members of the PMI Risk Management Special Interest Group (SIG), the respondents tended to think that the definition of project risk should be expanded to include the more general notion of positive risk as well.

So, even though you may commonly think of project risks as having a negative connotation, you can also use risk management to identify and quantify potential positive risk. If you would be the one introducing the risk, the risk management plan would be within your control. You and your client can determine if you want to accept the risk after understanding the risk plan, the chances of success, the payoff if you are successful and the impact if you are not successful.