*Practical Project Risk Management*[1]

# Risk Ownership: A brief guide [2]

## Purpose

Assign risks to the most appropriate individuals and organisations

## Two aspects of Risk Ownership

Projects take into account at least two aspects of risk ownership:

- **Risk Owner:** The individual who is accountable for the management of each risk.
- **Risk Bearing Organisation:** The organisation(s) that bear the impact of risk(s).

## Importance

**Risk owners:** risks that are not owned are often not managed. Clarity about personal responsibilities thus increases process effectiveness.

**Risk bearing organisation:** understanding how the impact of risk will be borne is a useful means of understanding how the organisations involved are likely to behave. The concept of risk-bearing organisation is therefore a useful tool for contract design and negotiation.

**Linking the two aspects of ownership:** people work on behalf of organisations. This linkage can be used to sense check a project's risk management plans.

## Recommended Approach

**Risk owner:** Select the person who has the most influence over the risk's outcome. Selecting the risk owner in this way usually involves considering the source(s) of risk and identifying the person who is best placed to understand and implement the appropriate course of action.

**Risk-bearing organisation:** the organisation that bears the financial consequences. If there are no financial consequences, consider the impact on the project benefits or product.

[1] This series of articles is by Martin Hopkinson, author of the books "*The Project Risk Maturity Model"* and *"Net Present Value and Risk Modelling for Projects"* and contributing author for Association for Project Management (APM) guides such as *Directing Change* and *Sponsoring Change*. These articles are based on a set of short risk management guides previously available on his company website, now retired. See Martin's author profile at the end of this article.

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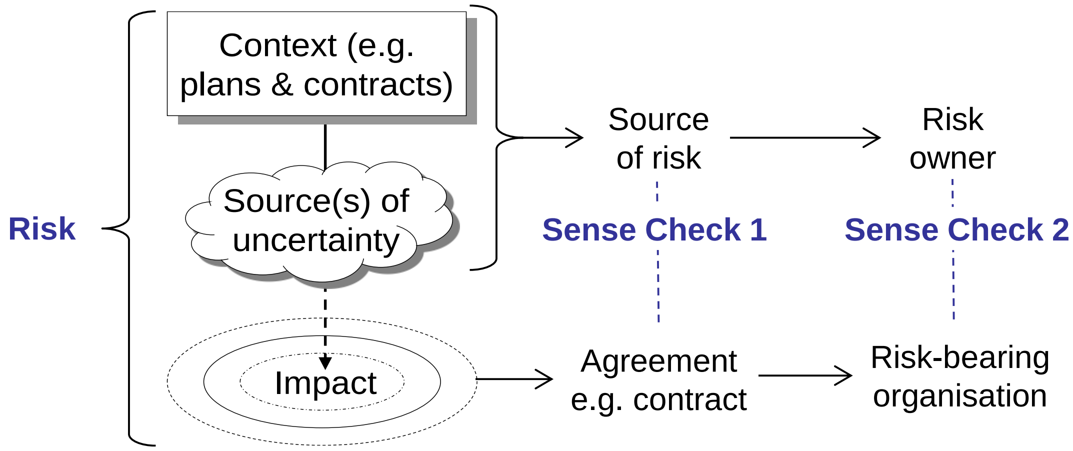
The recommended risk-bearing organisation approach reflects the fact that money can usually be transferred in a way that time and product impact cannot. Identifying the risk-bearing organisation usually involves understanding how the obligations of parties defined by agreements, e.g. contracts, are related to the transfer of money. Sometimes risk is shared, particularly if there is a mutual benefit to be gained from doing so.

## Risk Ownership Sense Checks




**Sense check 1:** Check the alignment of project agreements with sources of risk

Verify whether or not the risk-bearing organisation for each risk is the one that is best able to influence its outcome, given the source of risk involved. If it is unclear which organisation would bear the risk or if one organisation would bear the financial consequence of a risk that another organisation influences, this would indicate weaknesses in contractual design. Such weaknesses can lead to inefficient project delivery or conflict between the parties.

**Sense check 2:** Check that risk owners are employed by the risk-bearing organisation

Verify whether or not each risk owner works on behalf of the risk-bearing organisation. If the owner of a risk is employed by the risk-bearing organisation, they will be incentivised to manage the risk effectively. In contrast, if the risk owner is not employed by the risk bearing organisation, the consequence could be either inaction or counterproductive behaviour – a risk to one organisation may be an opportunity to others.

## Common Faults

1. Assigning risk owners who lack sufficient authority to implement effective action.
2. Lack of linkage between the risk management and contractual management processes.
3. Neglect of opportunities to share risk when there is a mutual benefit in doing so.

## About the Author

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**Martin Hopkinson**, recently retired as the Director of Risk Management Capability Limited in the UK, and has 30 years' experience as a project manager and project risk management consultant. His experience has been gained across a wide variety of industries and engineering disciplines and includes multibillion-pound projects and programmes. He was the lead author on Tools and Techniques for the Association for Project Management's (APM) guide to risk management (*The PRAM Guide*) and led the group that produced the APM guide *Prioritising Project Risks.*

Martin's first book, *The Project Risk Maturity Model*, concerns the risk management process. His contributions to Association for Project Management (APM) guides such as *Directing Change* and *Sponsoring Change* reflect his belief in the importance of project governance and business case development.

In his second book *Net Present Value and Risk Modelling for Projects* he brought these subjects together by showing how NPV and risk modelling techniques can be used to optimise projects and support project approval decisions. (To learn more about the book, click here.)