*Practical Project Risk Management*[1]

# Benefits of Project Risk Management: A brief guide [2]

## Purposes

1. Provide a checklist against which a project management process can be assessed.
2. Mark the 20th year of the APM PRAM Guide 2nd Edition.

## Association for Project Management (APM) PRAM Guide (2004)

The APM's second edition of its Project Risk Analysis and Management (PRAM) Guide remains one of the best sources of guidance on risk produced by a professional body. A key feature is its advocacy of a top-down multi-cycle approach, making it well-adapted for the management of risk as from the outset of a project. A simple explanation of this can be found on the *Top-down Multicycle Risk Management Process* guidance sheet (June, 2022).

Another feature of the PRAM Guide is its chapter identifying the benefits of risk management. This content was developed with professional workshops and identifies the following hard and soft benefits.

## Hard Benefits for Projects (PRAM Guide)

1. Enables better informed and more believable plans, schedules and budgets.
2. Increases the likelihood of a project adhering to its schedules and budgets.
3. Leads to the use of the most suitable type of contract.
4. Allows a more meaningful assessment and justification of contingencies.
5. Discourages the acceptance of financially unsound projects.
6. Contributes to the build-up of statistical information to assist in better management of future projects.
7. Risk analysis enables objective comparison of alternatives.
8. Identifies and allocates responsibility to the best risk owner.

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[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.

[2] How to cite this paper: Hopkinson, M. (2024). Benefits of Project Risk Management: A brief guide, Practical Project Risk Management series, *PM World Journal*, Vol. XIII, Issue II, February.

## Soft Benefits for Projects (PRAM Guide)

1. Improves corporate experience and general communication.
2. Leads to a common understanding and improved team spirit.
3. Helps distinguish between good luck/good management and bad luck/bad management.
4. Helps develop the ability of staff to assess risks.
5. Focuses project management attention on the real and most important issues.
6. Facilitates greater risk taking, thus increasing the benefits gained.
7. Demonstrates a responsible approach to customers.
8. Provides a fresh view of the personnel issues in a project.

## Benefits at the organisational / corporate level (PRAM Guide)

1. Compliance with corporate governance requirements.
2. A greater potential for future business with existing customers.
3. Reduced cost base.
4. Better reputation as a result of fewer project failures.
5. Better customer relations due to improved performance on current projects.
6. A less stressful project environment.

## Additional Benefits

Since the publication of the PRAM guide, there has been increased emphasis on a number of topics in the literature, including project governance, benefits management and project culture. On this basis, the following additional benefits of risk management can be noted.

1. Clarifies the role of the project sponsor in the ownership and management of risk.
2. Enables the management of risk to project benefits from the earliest opportunity.
3. Supports project solution choices based on trade-offs between delivery and benefits risk.
4. Supports project go/no go decisions with more realistic forecasts of outcome.
5. Promotes a climate of trust within the project team and with other stakeholders.

## Common mistakes

Some of the most significant causes of failure to realise risk management benefits include:

1. Focussing the process on project delivery risk, thereby neglecting risk to project benefits.
2. Failure to implement agreed actions and decisions identified by the process.
3. Reliance on simplistic risk analysis methods unsuitable for the earliest project phases.
4. A project or organisational culture that fails to support frank disclosure of information.
5. Lack of engagement or understanding by the project sponsor in the process.

## 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.)