Practical Project Risk Management[1]

Project Strategy Risks: A brief guide [2]

Purpose

1. Identify risks associated with a project's strategy.
2. Include the implications of project strategy risks in the decision making process.

Project Strategy Choices

There are competing ideas in the literature as to what the term project strategy means. For the purpose of this guidance sheet, project strategy can be described as being the outcome of choices that are fundamental to the project and that create the framework within which its solution and plan are developed. Examples of such choices may include:

1. The project's purpose and its relationship with its owning organization's objectives.
2. The identity and role of stakeholders, particularly if a project is co-owned.
3. The means by which the organisation will provide resources to the project.
4. The application of the organization's governance and contracting processes.
5. Critical assumptions that affect the project as whole.

Project Strategy Risks

This guidance sheet defines a project strategy risk as being the possibility that a project strategy choice causes significant adverse consequences. Project strategy risks usually have a widespread impact and can be a potential cause of project cancellation or failure.

Ownership of project strategy risks

Project strategy choices are usually made or authorised at a management level higher than the project manager. Ownership of the associated risks should be allocated at a management level that is commensurate with taking the appropriate mitigation action or accepting the risk.

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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.

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Examples of Project Strategy Risks

- Withdrawal of a key member of a project consortium.
- Change in market conditions undermines the project business case.
- Failure or cancellation of interrelated project.
- Change of government leads to loss of support for the project.
- Change of company priorities undermines project delivery or the project objectives.

Implications for Risk Analysis

Project strategy risks can be maintained on a project risk register, but with risk owners who are generally at a higher management level as compared with other project risks. However, since they are typically complex risks with widespread impact, it may be inappropriate to assess them using simple probability and impact estimates. For this reason, they might be managed using a separate risk register.

When building a quantitative risk model, it is usually necessary to make significant framing or simplifying assumptions e.g. see the Developing Schedule Risk Models guidance sheet (July 2023). These often include overarching project assumptions that are de facto statements that the associated project strategy risks will not occur. All such assumptions should be disclosed alongside any risk forecasts produced by the model.

Implications for the Project Business Case

Given the potential significance of project strategy risks, a project business case should address and clarify their implications. In some cases the relevant sources of risk may be outside the organisation’s control, with the relevant strategy risks being tolerated.

Implications for Project and Project Portfolio budgeting

Where project strategy risks are owned at a level above that of the project manager, it is it illogical to include them in the delegated risk budget. See the *Budgeting for Cost Risk* guidance sheet (Sep 2023). It would thus be more usual to account for them within Management Contingency or as part of a risk pool maintained across the organization’s project portfolio.

Common Faults

1. Failure to identify and disclose key assumptions when publishing the project business case and/or the forecasts produced by quantitative risk modelling.
2. Focussing risk identification purely on the tactical level of project delivery risk.
3. Neglect of risk management responsibilities by project sponsors or other senior managers.

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.)