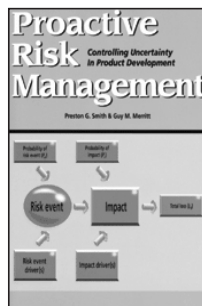


PROACTIVE RISK MANAGEMENT: CONTROLLING UNCERTAINTY IN PRODUCT DEVELOPMENT

2003 David I. Cleland Project Management Literature Award

BY PRESTON G. SMITH AND GUY M. MERRITT



Proactive Risk Management: Controlling Uncertainty in Product Development by Preston G. Smith and Guy M. Merritt may be simply the best book on risk management available today. It is certainly the best book written on the subject during 2002—or any other project management subject for that matter—winning the coveted David I. Cleland Project Management Literature Award from the Project Management Institute for 2003.

Risk management can be a scary subject. In many circles it has a reputation as being an intimidating collection of mathematical techniques and formulas inaccessible to the uninitiated members of project teams. Consequently, it is often avoided or touched only lightly in ways that fail to exploit its many benefits.

Smith and Merritt have developed and defined a practical approach to risk management that is focused on new product development but extensible to any project environment. Their primary purpose is to enable product development teams to identify surprises early in the project and manage them throughout to diminish the disruption they cause. But identifying surprises and diminishing disruption is not a matter of interest solely to product development teams. Any manager of any project will find a useful framework in the model suggested by the authors.

Proactive Risk Management is unique among similar texts in its practical, easy-to-use, fact-based approach to managing all of the risks associated with a project. How-to information and techniques at the depth it offers are not available elsewhere. The authors' approach provides a risk model that is scalable to any size project, methods for identifying causes of risks, and a method for prioritizing risks without introducing errors.

Beyond its practicality, the book's salient characteristic is its readability. It is user-friendly in the extreme, characterized by simple, direct language and facilitating icons that graphically indicate key ideas, cautionary notes, examples, and supplementary information.

In the opening chapters, the authors make a clear distinction between risks (uncertain events) and issues (certain events). It is important to recognize the difference because the two are managed in different ways. They also make their case for proactive risk management, pointing out that the process begins early in the project and continues throughout implementation as monitoring and follow-up. They describe "firefighting" as an all-to-common alternative practiced by those who fail to prevent "fires" by disciplined risk management techniques, or worse, see crisis as an opportunity to be a corporate hero.

Whatever the basis, fighting fires is neither desirable nor particularly successful.

Chapter 3 presents the proactive risk management model in summary. It serves as an introduction for those who will study further and as an executive overview for top managers who just want the bottom line. The model comprises a five-step process that includes: identifying risks; analyzing risks to determine drivers, impacts, and probabilities; prioritizing and mapping risks; planning actions to take; and monitoring progress and identifying emerging risks.

Smith and Merritt address each of the five processes in detail in separate chapters. They provide useful, how-to guidance that includes hints as to where the hurdles might be in application. All is presented in a conversational tone that facilitates understanding and learning. Each chapter closes with a summary that reviews and reinforces key points and a brief list of supplemental reading resources.

But the model, powerful as it may be, does not stand alone. The authors also describe five tools that support the model and the overall risk management effort. Some are very traditional, such as spreadsheets and decision analysis. Others are more innovative, such as "sticky density," a highly visual and interactive approach to pinpointing risky areas in a process, project, or organization. A series of suggested strategies complements the tools and model to improve risk management effectiveness. Some seem obvious: "Avoid risk when it does not add value." Others require a little thought: "Apportion risk carefully," and "Use failure to your advantage."

Last, the authors offer guidance on identifying and overcoming organizational impediments. Effective risk management does not "just happen." An effective approach often requires changes to established ways. Success depends on a broad view and sensitivity to organization dynamics. The key is to build risk management into the project as an integral element of all phases so that it rises to the importance level of cost and schedule.

Proactive Risk Management is a new entry to project management literature that should not be missed. For experienced project managers, it may provide a codification of practices that they have been applying all along. For those newer to the discipline, it will provide a solid grounding in a process that is essential to successful project implementation. For all, it provides a straightforward, easy-to-understand method for managing risks in the real project world.

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