



Basics of Managing Risks

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So you have been asked to put together a project risk management plan. No idea where to start. Here is a brief guide to putting together a risk management plan.

Project Risk Management

A risk is something that may happen and if it does, will have an adverse impact on the project. A few points here. "that may happen" implies a probability of less than 100%. If it has a probability of 100% - in other words it will happen - it is an issue. An issue is managed differently to a risk and we will handle issue management in a later white paper. A risk must also have a probability something above 0%. It must be a chance to happen or it is not a risk.

The second thing to consider from the definition is "will have an adverse impact". If it will not have an adverse impact, it is not a risk. Suppose we said a risk was that we would find the project less complicated than we thought, and could finish early. Unless finishing early has an adverse effect on the project, it is not a risk.

Risk Management Plan

There are four stages to risk management. They are:

- Risk Identification
- Risks Quantification
- Risk Response
- Risk Monitoring and Control

Risk Identification

In this stage, we identify and name the risks. The best approach is a workshop with business and IT people to carry out the identification. Use a combination of brainstorming and reviewing of standard risk lists.

There are different sorts of risks and we need to decide on a project by project basis what to do about each type.

Business risks are ongoing risks that are best handled by the business. An example is that if the project cannot meet end of financial year deadline, the business area may need to retain their existing accounting system for another year. The response is likely to be a contingency plan developed by the business, to use the existing system for another year.

Generic risks are risks to all projects. For example the risk that business users might not be available and requirements may be incomplete. Each organisation will develop standard responses to generic risks.

Risks should be defined in two parts. The first is the cause of the situation (Vendor not meeting deadline, Business users not available, etc.). The second part is the impact (Budget will be exceeded, Milestones not achieved, etc.). Hence a risk might

be defined as "The vendor not meeting deadline will mean that budget will be exceeded". If this format is used, it is easy to remove duplicates, and understand the risk.

Risk Quantification

Risk need to be quantified in two dimensions. The impact of the risk needs to be assessed. The probability of the risk occurring needs to be assessed. For simplicity, rate each on a 1 to 4 scale. The larger the number, the larger the impact or probability.

By using a matrix, a priority can be established.

Probability	4	Medium	Critical		
	3				
	2	Low	High		
	1				
		1	2	3	4
		Impact			

Note that if probability is high, and impact is low, it is a Medium risk. On the other hand if impact is high, and probability low, it is High priority. A remote chance of a catastrophe warrants more attention than a high chance of a hiccup.

Risk Response

There are four things you can do about a risk. The strategies are:

- Avoid the risk. Do something to remove it. Use another supplier for example.
- Transfer the risk. Make someone else responsible. Perhaps a Vendor can be made responsible for a particularly risky part of the project.
- Mitigate the risk. Take actions to lessen the impact or chance of the risk occurring. If the risk relates to availability of resources, draw up an agreement and get sign-off for the resource to be available.
- Accept the risk. The risk might be so small the effort to do anything is not worth while.

A risk response plan should include the strategy and action items to address the strategy. The actions should include what needs to be done, who is doing it, and when it should be completed.

Risk Control

The final step is to continually monitor risks to identify any change in the status, or if they turn into an issue. It is best to hold regular risk reviews to identify actions

outstanding, risk probability and impact, remove risks that have passed, and identify new risks.

Summary

Risk management is not a complex task. If you follow the four steps, you can put together a risk management plan for a project in a short space of time. Without a plan, the success of the project, and your reputation as a Project Manager, are on the line. Follow these steps and you will increase your chances of success.

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Project Perfect sell “Project Administrator” software, which is a tool to assist organisations better manage project risks, issues, budgets, scope, documentation planning and scheduling. For more information on Project Administrator or Project Management visit www.projectperfect.com.au