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| **Risk Management Basics** | **Rating** |
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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.

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| **Project Risk Management**  A risk is something that may happen and if it does, will have a positive or negative impact on the project. A few points here. "That may happen" implies a probability of less then 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 a positive or negative impact". Most people dive into the negative risks but what if something goes right? |  |

Take the example I came across recently where we identified a project finishing ahead of schedule as a risk. It might seem to be a bonus but the completion date happened to occur at the busiest time of the year for the company. The last thing they needed was a project going live in their peak period. The mitigation was that if we were ahead of schedule, we would slow the project down by reducing resources.

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**Risk Management Plan**

There are four stages to risk management planning. They are: ·

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

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**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.

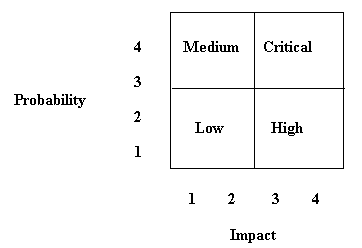
Generic risks are risks to all projects. For example the risk that business users might not be available and requirements may be incomplete. Each organisation will develop standard responses to generic risks.

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.

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**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.



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.

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**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.

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[**[](http://www.projectperfect.com.au/pa.htm)**](http://www.projectperfect.com.au/pa.htm)**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.

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**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.