

## PM WORLD TODAY – PM ADVISORY – SEPTEMBER 2009

**RISK DOCTOR BRIEFING**

## What is your Biggest Risk?

*Dr David Hillson*

It should not be too hard to answer the question “What is the biggest risk in your project or business?” Most of us know what keeps us awake at night, either worrying about what could go wrong (threats), or getting excited about possible improvements (opportunities). But how do we decide which risk is the “biggest”? Is it just an intuitive feeling, or are there measurable parameters we can use?

It is very common to use just two factors to size risks: **probability** and **impact**. These estimate how likely the uncertain risk is to occur, and how significant its effect would be if it actually happened. Probability and impact are related to the size of a risk because they describe two fundamental characteristics of every risk:

1. Each risk is uncertain, which means that it may not happen, and “probability” reflects the degree of uncertainty about whether it will happen or not.
2. A risk that occurs would affect our ability to achieve one or more objectives, and “impact” describes our prediction of the extent to which objectives would be affected.

There are however several other important characteristics of risks which we might want to use when we answer the question “Which is the biggest risk?” For example:

- **Manageability** – How easy is it to do something about the risk? We may decide that a medium-probability/medium-impact risk that we can do nothing about is more risky than a high-probability/high-impact risk which is simple to deal with.
- **Proximity** – If the risk happens, how soon do we expect that to be? A risk that might happen tomorrow should be treated as more important than one which might not occur until next month or next year.
- **Propinquity** – How important is the risk to me personally, or to my team or our business? We are more sensitive to risks that affect us directly, and view risks to others as less important.

- **Urgency** – How much time do we have in order to implement an effective response to the risk? If we must act now to address the risk, we should give it higher priority than one where we have longer to respond.
- **Relatedness** – Is this risk related to other risks? A risk with complex links or dependencies with many other risks should be treated as higher priority than a simple independent risk.

We might wish to consider these and other factors when we try to decide how big a risk is, and what degree of priority we should give it. Simply assessing probability and impact is a limited way to determine risk size. Of course if you use more dimensions to size your risks, it becomes harder to develop suitable ranking algorithms and to present results. For example the traditional Probability-Impact Matrix only deals with those two characteristics, and other tools are required to deal with additional dimensions – for example bubble charts or risk meters.

The question “*What is your biggest risk?*” seems simple, but we should avoid the trap of giving an answer which is too simplistic.

To provide feedback on this Briefing Note, or for more details on how to develop effective risk management, [contact the Risk Doctor \(info@risk-doctor.com\)](mailto:info@risk-doctor.com), or [visit the Risk Doctor website \(www.risk-doctor.com\)](http://www.risk-doctor.com).



*Editor's note: This is another in a series of Risk Doctor Briefings by the globally famous Risk Doctor, David Hillson, that will appear in PM World Today. Risk management is one of the most important aspects of managing programs and projects in today's environment of complexity, global pressures and uncertainty. We are happy to bring the Risk Doctor's expertise and perspective to our readers.*

## About the Author:



### ***Dr. David Hillson***

*Author*



**Dr David Hillson**, PMP FRSA HonFAPM FIRM FCMI, is internationally recognized as a leading thinker and practitioner in risk management. He is Director of Risk Doctor & Partners ([www.risk-doctor.com](http://www.risk-doctor.com)), and has worked in over 40 countries. He is a popular conference speaker and award-winning author on risk, with six books on the topic. David has made several innovative contributions to improving risk management, and is well known for promoting the inclusion of proactive opportunity management within the risk process, and for his ground-breaking work in risk psychology. David is an Honorary Fellow of the UK Association for Project Management (APM) and past chairman of its Risk Management Specific Interest Group. He is an elected Fellow of the Institute of Risk Management (IRM), the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA), and the UK Chartered Management Institute (CMI). David is also an active member of the Project Management Institute (PMI) and was a founder member of its Risk Management Specific Interest Group. He received the PMI Distinguished Contribution Award for his work in developing risk management over many years. Since 1998 he has been a core author for the risk chapter of the PMBOK Guide®, and is a core author for the PMI Practice Standard for Project Risk Management. David can be contacted at [david@risk-doctor.com](mailto:david@risk-doctor.com). To see his latest book, *Managing Risks in Projects*, published in July 2009 by Gower, visit <http://www.gowerpublishing.com/isbn/9780566088674>.