

The Danger of Failing to Manage Risk in Projects

Laurence J Nicholson, PMP, FPMA

When I think about all of the projects I have been involved in and consider all of the aspects of the management of those projects, what I would consider to be the single most important area of knowledge that has the most impact on the outcome of the project is 'Risk'.

Why? Well, if we could predict all of the issues, both opportunities and risks, that would have an effect on our project and have a plan in place to avoid, mitigate, transfer or accept the outcome of the issue, would we not have a perfect project?

Probably yes, is the answer, but we all know that the very nature of risk dictates that we cannot predict them all. The point is that when we are planning for our projects, how much emphasis is really placed on trying to predict the risks that are relevant to us? Not enough!

If we consider all areas of potential risk within a project, does that not cover all the other knowledge areas? In order to minimise the impact of risk events on our projects, we should spend time at the start of a project to consider risks around the following areas:

- Defining the scope correctly
- Correctly costing and scheduling the project
- Resourcing correctly
- Assuring the quality of the project,
- Procurement aspects of the project
- Predicting risk.

For those of us that do focus heavily on the risk management aspects of our projects, are we doing enough to improve our chances of a successful project, or can we do more? During many of the project capability audits I carry out for clients, I find that typical risk management is restricted to a risk register (list) and a regular, typically weekly, review meeting. Very little qualitative and quantitative assessment is carried out, and few have a comprehensive risk response plan.

Is it enough to just list the risks you associate with the project? Not if we intend to manage them correctly. In order to do this we need to be able to have some measure of how likely

the risk event is to happen (see table A) and what the impact will be if it does (see table B).

Probability (Likelihood)	Description
0.1	Unlikely to occur under normal and predictable project conditions
0.3	Some likelihood of occurring during normal project conditions, and must be monitored.
0.5	Highly likely to occur during normal conditions and must have a mitigation plan and be monitored daily
0.7	Certain to occur under normal project conditions. Pre-emptive action must be defined and carried out to avoid this risk occurring.
0.9	Unavoidable under present conditions. Must be actioned according to Response plan.

Table A - Probability

Impact	Description
0.05	No or minimal impact to the project schedule or budget.
0.10	Some impact on either budget or schedule, but not material enough to impact critical path.
0.20	Will have some material impact on either budget or schedule and should be monitored.
0.40	Will have a material impact on budget and/or schedule and must be closely monitored with a view to mitigate if possible.
0.80	Will have a major impact on the budget and schedule of the project as a whole, impacting the critical path, and as such must be avoided if possible. If avoidance is not possible then communication of the delay and budget increase must be made to the stakeholders as soon as possible.

Table B - Impact

These values when multiplied provide the risk score (see table C), which enables you to group risks by severity for a more tailored focus, loosely following a form of Pareto's rule of 80/20. For each of these risks, starting with the one with the highest score, a response plan needs to be prepared, detailing how the event is to be managed, who will manage it, and when.

Risk Scoring					
Probability	Risk Score = P x I				
	0.9	0.05	0.09	0.18	0.36
0.7	0.04	0.07	0.14	0.28	0.56
0.5	0.03	0.05	0.10	0.20	0.40
0.3	0.02	0.03	0.06	0.12	0.24
0.1	0.01	0.01	0.02	0.04	0.08
	0.05	0.10	0.20	0.40	0.80
	Impact				

Table C- Risk Score

What then happens is a basic monitoring process and, wherever necessary, an

implementation of the response plan in order to manage the event.

If we ensure as many risks are identified as possible in the beginning, and that they are evaluated from a qualitative and quantitative point of view, and that a risk response plan is created and accepted, we stand a much greater chance of being prepared for those problems that will inevitably arise and manage through to a successful conclusion.

About the Author:

Laurence Nicholson is a PMP and a Fellow of the Association of International Professional Managers (FPMA). He has been leading international technology projects for over 18 years at all levels, and 5 years ago left PA Consulting Group and joined 'Xoomworks', a start-up Consultancy, where he now heads the Project Management Practice as a Senior Manager

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