UNIT-5

Project Risk Management

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Explain what is risk planning
- ✓ Discuss the components of contingency planning

Unit 5

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Risk Tolerance

Risk Tolerance Exercise

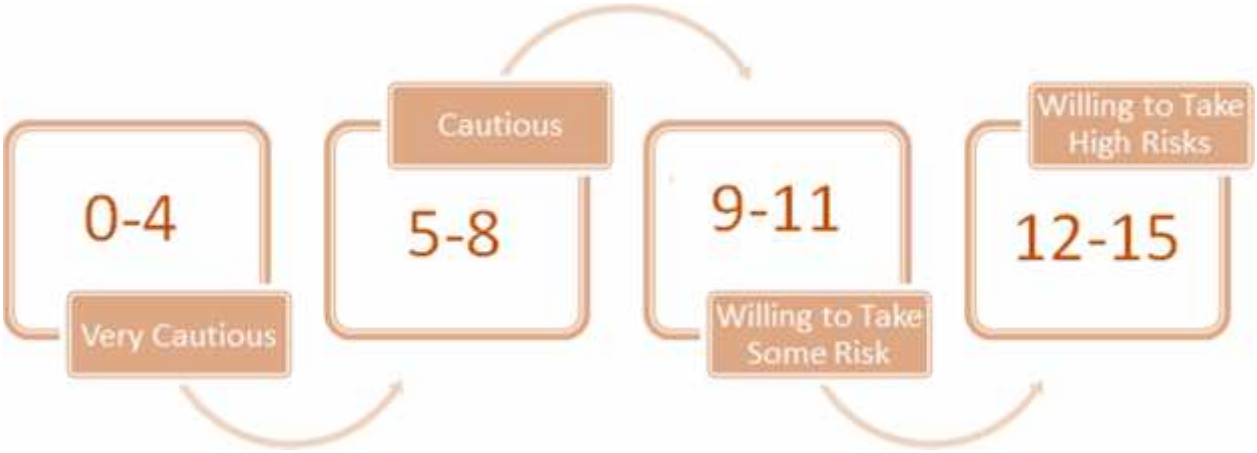
Read each description. Circle whether you agree or disagree with the description on the basis of your management work. Don't look for hidden or double meaning in the descriptions; your first reaction is probably your best.

1.	Taking chances makes sense if there are no low risk alternatives.	Agree	Disagree
2.	I generally prefer action over waiting.	Agree	Disagree
3.	I am able to recover from mistakes, even the really big ones.	Agree	Disagree
4.	I believe in helping new people develop their experience so they can succeed, rather than giving positions to people with more experience who refuse to try new ways of doing things.	Agree	Disagree
5.	I can accept things that are not done perfectly.	Agree	Disagree
6.	I believe in seizing opportunities when they arrive.	Agree	Disagree
7.	It is better to ask for permission beforehand than to beg for forgiveness afterward.	Agree	Disagree
8.	Success is 50% luck and 50% skill.	Agree	Disagree
9.	I prefer to be paid a set salary rather than paid for performance (or commission), which varies depending on my own efforts and results.	Agree	Disagree
10.	If things go really wrong I recover quickly because I know I did my best.	Agree	Disagree
11.	Mine and others' safety is more important than making more profit.	Agree	Disagree

12.	Repeated failure is a very long road to achievement.	Agree	Disagree
13.	I can tolerate ambiguity and uncertainty without difficulty.	Agree	Disagree
14.	I would rather fail than not try.	Agree	Disagree
15.	When I consider a decision where results are unclear, my greatest concern is for potential losses.	Agree	Disagree

Scoring

- Give yourself one point for each of the following statements with which you agree: 2, 3, 4, 5, 10, 13, 14.
- Give yourself one point for each of the following statements with which you disagree: 1, 6, 7, 8, 9, 11, 12, 15.
- Calculate your total.
- Plot your total on the risk scale.



About Risks

There are three types of risks:

- Known risks are those that you or your stakeholders (such as your manager) can identify from experience.
- Predictable risks are those that might occur. This is your instinct rather than something concrete that tells you to be on the lookout.
- Finally, there are the things that we just didn't count on—the stuff that happens. You simply can't predict everything.

The most common risks to be considered include:

- Funding: It may get cut or dry up.
- Time: Other projects may land on your desk at the same time.
- Staff: The people you were relying on get sick, quit, or are assigned to another project.

- Customer relations: You may have customers from other departments, or external customers, whose needs conflict with this project.
- Project size or complexity: The project gets more complex than originally intended.
- External factors (such as weather).

Risk has two characteristics:

- Uncertainty: May or may not happen.
- Loss: An event has unwanted consequences.

Reducing Risks

Project managers plan for risk. They must:

- Identify potential problems and confront them before they occur. It is easier and cheaper before they are problems or before a crisis exists.
- Focus on the project's goals and look for things that may affect quality throughout the lifecycle.
- Identify potential problems early in the planning cycle.
- Involve personnel at all levels of the project.

Sources of Risk

Possible sources of risks include:

- Funding/Budget
- Time/Schedule
- Customer relations
- Project size or complexity
- People/Staff:
  - Are they available?
  - Are they committed?
  - Are they skilled?
  - Do they know what is required of them?
- Technological:
  - Is the technology proven?
  - Is it reliable?
  - Is it available?
  - Is it understood?
- Political:
  - Is the need for the project agreed on?
  - Does the sponsor control the stakeholder group?
  - Are negative stakeholders influential?
  - Is communication with stakeholders good?
- Financial: Am I in control of project funds?
- Contractual/Legal: Am I, or is my company, contractually or legally liable for the failure of the project?

- Physical: Are there any physical risks inherent in undertaking the project tasks?
- Environmental:
  - How can the weather affect my project?
  - What geological factors might put my project's success at risk?
- Facilities and equipment

Constraints

Constraints that can bring great projects down to earth fast include answers to questions like these:

- How much money is really available and when?
- When must the project be completed?
- What inside (internal) resources are required?
- What outside (external) resources are required? Can you afford them?
- Can you get consensus among project members and stakeholders that the project is important and deserves your time and attention?
- What are you willing to settle for that will still meet your needs? Is there a way to do it cheaper or with fewer resources?

Then the constraints come down to the following issues:

- The budget
- The schedule
- The people
- The world beyond
- Facilities and equipment

All of these constraints should be well documented in your SOW.

Contingency Planning

Contingency planning is planning for a course of events that is other than what we want or expect. This is based on three beliefs:

- Something is always waiting to go wrong
- What will go wrong will be what you least expect
- It will hit harder than you thought possible

Contingency planning is a skill that has saved careers. The elaborateness of the contingency plan will depend on how likely it is something will go wrong, and how risky it will be not to have a back-up plan.

Test Your Knowledge

Do you have some contingency plans in place for the project you are working on, or plan to work on? If so, what are they?

Components of a Contingency Plan

When?

- How will we know when the unwanted event will happen?
- What will alarms look like?
- When should we start acting?

Who?

- Who has responsibility for this event?
- What other resources might they need?
- Who else should be informed?

What?

- What will happen when the event occurs?
- What will we do when the event happens? (Depending on the event, this plan could be very detailed or very simple. A step-by-step, timed plan may be necessary.)
- What consequences could the event have?
- What other risks might this event create?

Where?

- Where is the risk going to happen?

Further Reading: