Projects Represent Risky Business

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Any major change or project represents some level of risk. Does this mean that all organizations properly assess and manage risk during such change? Not according to this scenario.

> *Shares of Invacare Corp. fell 5.8% to $31.50 after the Ohio-based company said it expects its performance for the fourth quarter to come in below prior expectations due to problems with the implementation of a new enterprise resource planning system. The company estimates the resulting temporary disruption of order processing capabilities and inefficiencies caused a revenue shortfall of about $30 million.*[1]

Outcomes like Invacare's are often attributed to poor Risk Management. Consequently, without a Risk Management plan, you, the project sponsor and the company are in danger of such failure. Failure could mean cost and schedule overruns, project termination and shareholder backlash.

If you do not want to face such potential problems, you should have a Risk Management plan that considers all potential risks, how they will be dealt with and by whom.

Risk Management Defined

According to the Project Management Institute and its *Project Management Body of Knowledge (PMBOK®) Guide*, Risk Management is considered a systematic and proactive approach to taking control of projects and decreasing uncertainties. It involves minimizing the consequences of adverse events while maximizing the results of positive events. Risks can be good (opportunities) or bad events (like the scenario above).

Risk Management is also an iterative process, not a one time event, within each lifecycle phase of a project. The Risk Management *plan* should be revisited as changes are always occurring and more information is discovered. As the project progresses, the plan should become more fine-tuned.

Risks vs. Issues

Before you can successfully identify and mitigate risks, it is important to understand what is considered a risk and what is not. The most common mistake is confusing "issues" as "risks". Issues are dealt with throughout a project and are not addressed in the Risk Management plan. It is important to understand the difference between the two.

An issue is a *problem* that can be resolved. Depending on severity, issues can stop, delay, change direction and increase the cost of a project. If you were implementing a new HR/Payroll system and did not know the latest IRS rules concerning 401K contributions that is an issue. As the project manager, you would identify the resources needed to research, validate and document these rules within a specific timeframe to keep the project on schedule. Issues are generally reviewed and addressed within every project team meeting; new ones come to the forefront, existing ones' status for resolution is reported.

[1] MarketWatch – December 14, 2005

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On the other hand, a risk is a *potential future event or occurrence* that can have a positive and/or negative effect on a project or organization. Risks are mitigated or assumed prior to occurrence and generally do not stop a project. For instance, the new HR/Payroll system you are implementing may incorrectly calculate the 401K contributions for employees after the system has been installed. This is a predictable occurrence and should be mitigated before the actual installation, which is where Risk Management comes into the picture. Within each phase of the development life cycle, risk needs to be reassessed as progress is made and new discoveries occur.

Basic Steps in Risk Management Planning

Now that we have defined risk, it is time to look at the five basic steps to begin your mitigation strategy:

1. Plan
2. Identify
3. Quantify and Qualify
4. Respond
5. Monitor and Control

So at what point in a project should you begin? The sooner the better!

As you begin defining the project charter and scope, leverage the project sponsor and others to help start identifying risks, even though you may or may not have a team assembled.

There are many sophisticated and automated tools that can help the project team and project partners in planning for risk, including Syntex® and Logic Manager®. There are also simple methods (such as the charts to follow) that may help your planning process.

Considerations for Risk Management

When beginning a project, a project manager often starts thinking strictly in terms of schedule, budget and quality risk. However, these risks, although important, only represent a partial picture of your Risk Assessment. Other risks that should be considered include:

- Vendor
- Operations
- Media
- Reputation
- Career (yours, your sponsor and your team)
- Customer
- Shareholder (sited above)
- Interest Rate/Market
- Legal
- Compliance (SEC, etc)

Initially gathering together the right people who can think of every possible future risk scenario (good and bad) is critical. Depending on the size, complexity, impact and scope of a project, the participants may include those outside of the core project team. For instance, consider reaching out to the marketing department to help identify and mitigate media and reputation risks. What matters most is that you utilize the right people needed to uncover ALL potential risks.

You may be asking yourself if these risks are really ever “realized.” In another recent news story, a financial services provider experienced technology and customer servicing problems due to a major cross-functional change initiative. Customers did not have access to their invested and deposited funds for over one month, according to the story. In this instance alone, there was significant impact in the following areas: customer, operations and media. The overall reputation of this stoic organization was also jeopardized.

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By not considering all types of risk, you could be setting yourself and the organization up for major problems down the road. As the project manager, it is your responsibility to ensure that all risks are identified, mitigated and/or assumed by the project sponsor.

Define Risk Levels

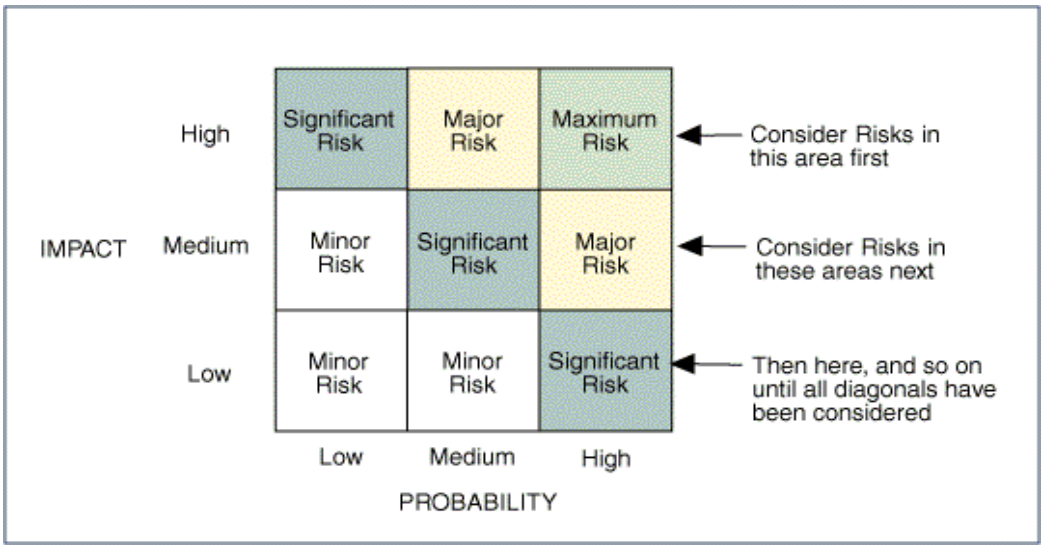
As you and your team consider the various types of risk, you should also consider the threat level that each one presents. The chart below includes the *simple definitions* of the various risk levels. This is intended to be an *example only*, as you and your team should review the definitions of risk levels utilized by your organization.

High	Most likely to occur	Almost certainly will cause *significant disruption to the project or the business* resulting in the need for specific controls and contingencies.
Medium	May or may not occur	Likely to cause delays or additional work resulting in additional time, resources and workarounds.
Low	Not likely, but not impossible	May cause delays or additional work that could be contained within existing contingencies.

Identifying Risk Impact and Probability

The chart below is another *example* of how to rank the levels of risk and determine which need to be considered first. To use the chart, first you will need to consider the impact and probability of each risk. The chart then allows you to determine those with the highest risk and ultimately which should receive top priority.

The left hand side of the chart represents the level of impact and the bottom represents the likelihood that the risk will occur. For instance, if the impact and probability of a risk is high, then that represents a maximum risk and should receive top priority.



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As you and your team look at each risk, consider the following:

- What could go wrong
- What is the probability of it going wrong
- How significant is it if it goes wrong
- Who is responsible for what when it goes wrong
- How can we mitigate or prevent it from going wrong

Conclusion

Projects represent risky business, but that doesn't mean you can't be successful. While this white paper provides an overview of Risk Management, you should continue to educate yourself on the subject especially around the practices of your particular organization. Ensure that your next project has a Risk Management plan and that it is revisited at every lifecycle closure and engage everyone associated with the project in planning for risks. Follow these steps and rest assured you won't be reading about your failed project in the news!

Karen McIsaac, PMP, is an expert in organizing, planning and executing large program/project initiatives. She has over 20 years of experience in delivering large business-driven initiatives with significant business, cultural and technological impact. Karen has assisted the firm's clients create success stories through achievement of project-related business objectives and management of the associated change.

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