RISK MANAGEMENT
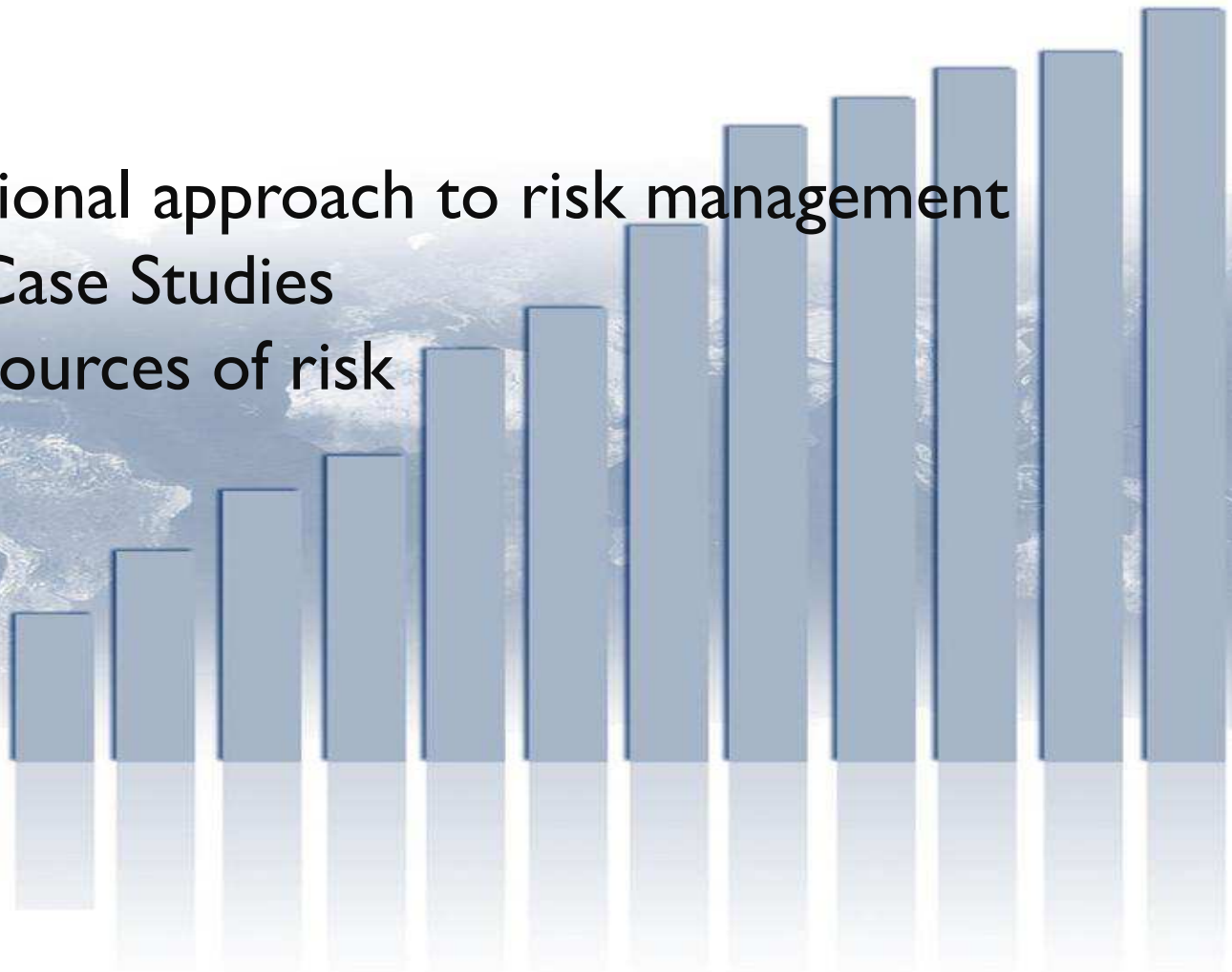
Finding the hidden risk

Agenda

- Traditional approach to risk management
- Risk Case Studies
- Real sources of risk

What is a risk?

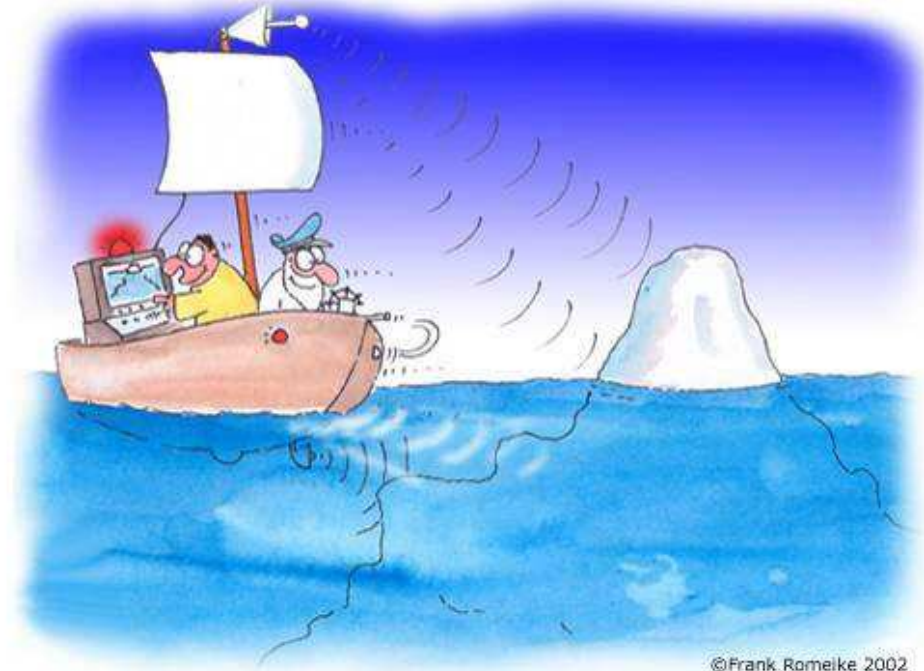"An uncertain event that may have an effect on the achievement of one or more of the project's objectives"

©Frank Romeike 2002

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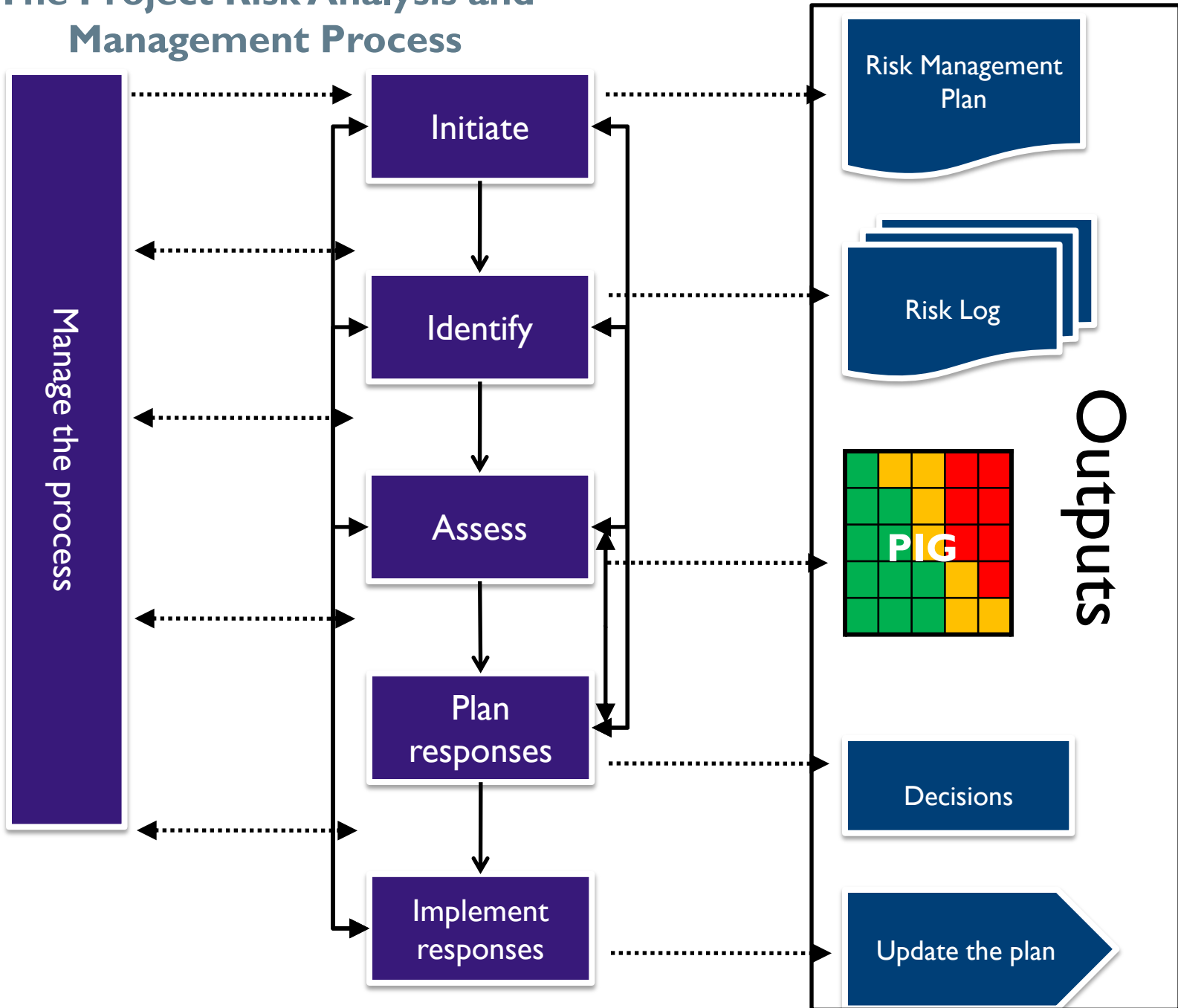
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Case Study Review

Consider the case studies in groups

1. Orlyval
2. Dartford second crossing
3. Eden Project
4. Wembley Stadium

- What (if anything) went wrong?
- What realistic recommendations would you make for future projects?
- Who should implement these recommendations?

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The Project Risk Analysis and Management Process

Manage the process

Initiate → Identify → Assess → Plan responses → Implement responses

Outputs

- Risk Management Plan
- Risk Log
- PIG
- Decisions
- Update the plan

Cause - Risk - Effect

Cause

> **Root cause of the risk**
> e.g. Inability to recruit sufficient skilled people

Risk

> **What could happen**
> e.g May result in insufficient resources for a testing programme

Effect

> **Consequences for the project objectives**
> e.g. Failure to deliver critical **product** on time

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Risk Identification (part1)

- Brainstorming
- Check lists
- Prompt lists
- Assumptions analysis
- Root cause analysis
- Previous experience

Identification (part 2)

Once a risk has been identified it must be recorded on a risk register which includes:

- ❑ Identification number
- ❑ Description
- ❑ Category
- ❑ Owner
- ❑ Potential Impact
- ❑ Probability
- ❑ Risk reduction actions

Identify ⋯⋯⋯► Risk Log
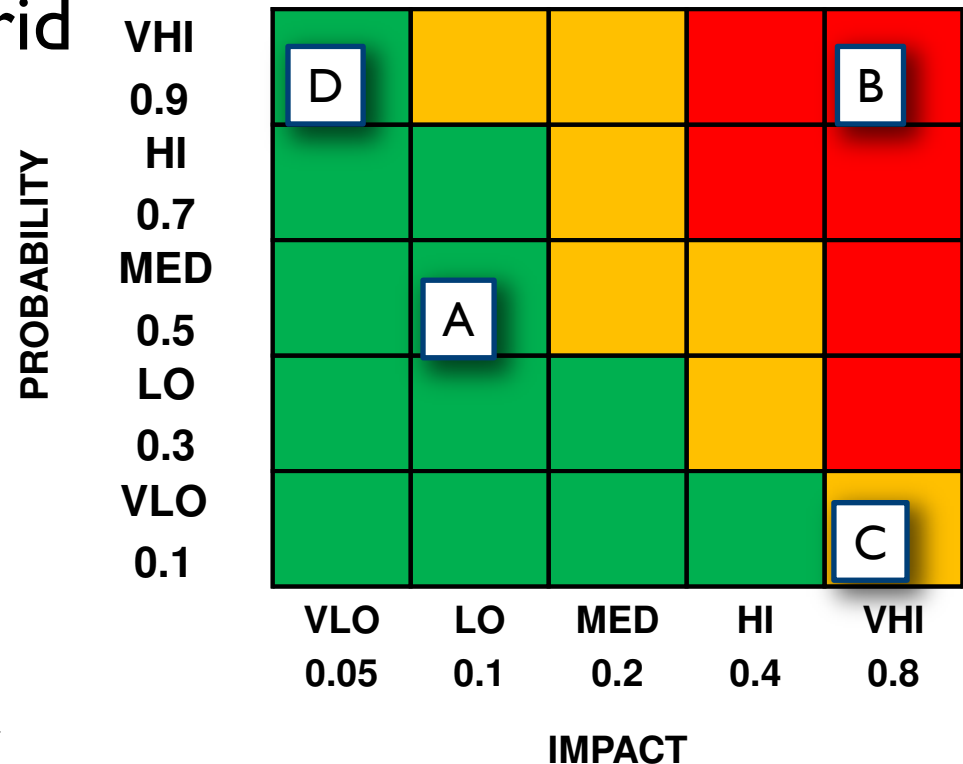
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Qualitative Risk Assessment

Most common form of risk assessment is a probability impact grid

- Evaluate the risk against two axis probability and impact
- Five levels of assessment
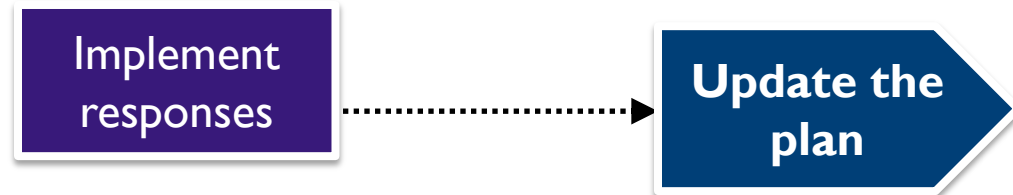- Calculate a severity score for each risk

Response Planning

Once the specific responses have been decided upon they should be included within the project plan:

- □ Risks are integrated into the project plan

- □ They are included in the WBS, schedule, budget and contingency.
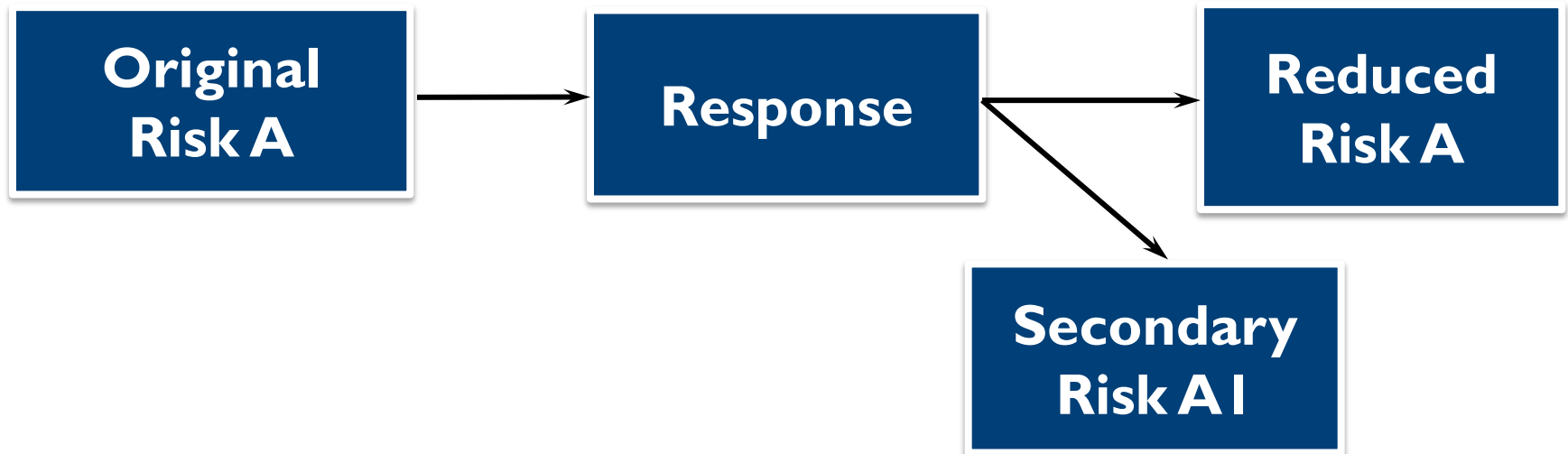
- □ Risk process needs to be live.

Implement responses ┄┄┄┄➤ **Update the plan**

Responding to risks?
What treatments?

	Before Risk Event		After Risk Event
Reduce Probability	Avoid	Reduce	
Reduce Impact	Transfer/ Share	Insure / Protect	Fallback Plan

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Secondary Risk

Beware of secondary risks :

□ contingent on taking a response

```
┌─────────────┐        ┌─────────────┐        ┌─────────────┐
│   Original  │ ──────▶│   Response  │ ──────▶│   Reduced   │
│   Risk A    │        │             │   ╲    │   Risk A    │
└─────────────┘        └─────────────┘    ╲   └─────────────┘
                                           ╲
                                      ┌─────────────┐
                                      │  Secondary  │
                                      │   Risk A1   │
                                      └─────────────┘
```

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Risk response owners

- Best placed to manage risk effectively
  - Project team
  - Other department
  - Customer/client/user
  - Subcontractor
- Empowered
  - Responsibility with authority
- Accountable

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Strengths and Weakness of Traditional Approach

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Strengths

- Procedural
- Detailed
- Structured approach
- Scientific?
- Priority on largest risks?
- Codified in standards
- Auditable

Weaknesses

- Focus on identification and analysis, **not action**
- Many risk are **already managed** as part of day to day management action.
- **Record keeping** can become more important than action
- Can ignore critical risks.

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Stakeholder Requirements

Other projects

Internal Constraints

Project

External Constraints

Business Risk Ecosystem

Stakeholder Requirements

Other projects

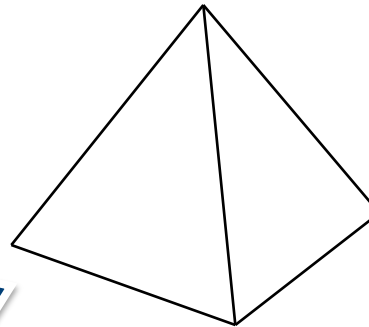Internal Constraints

Project

External Constraints
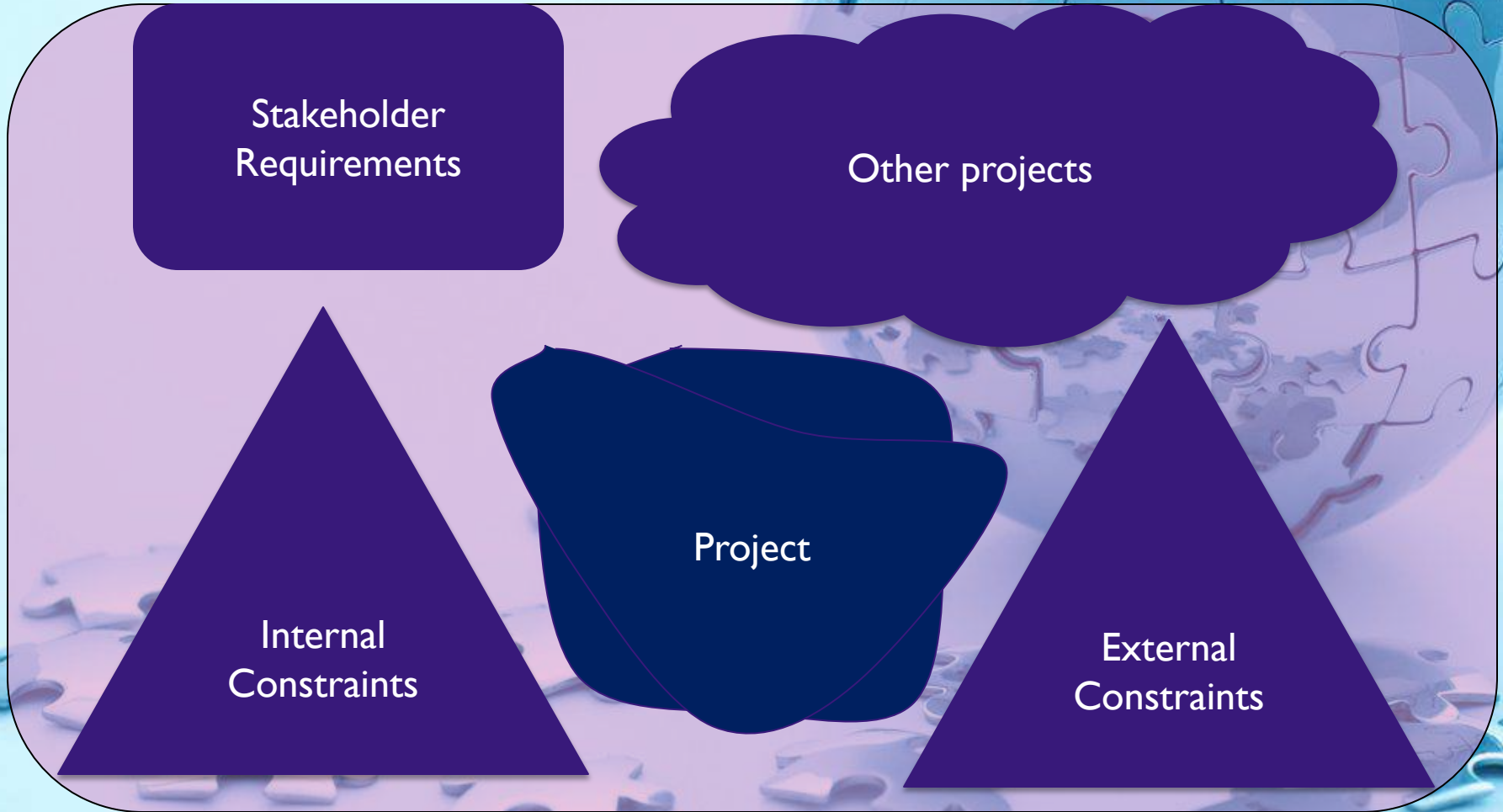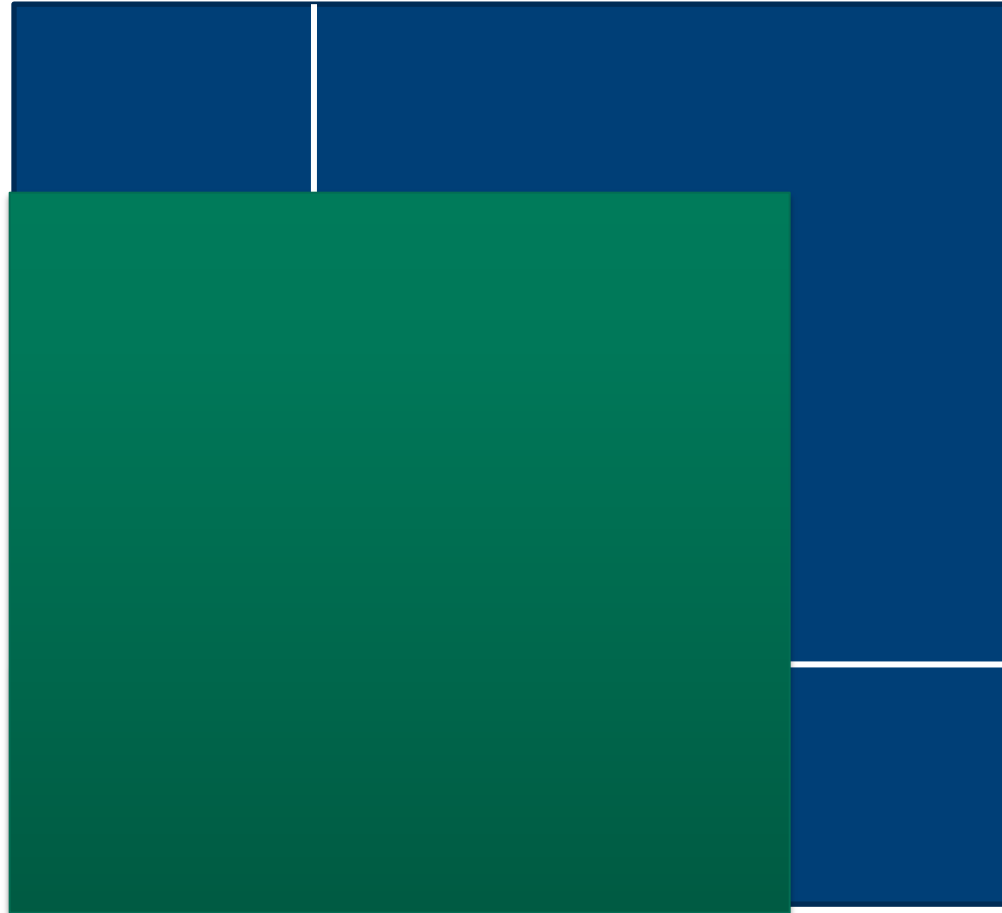
Unknown

Known
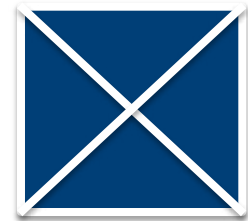
Know

Unknown

Define Objectives

A Pyramid

Project Objectives

Objectives

Threats/Opportunities
RISK

Stakeholders
(& environment)

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Harrison
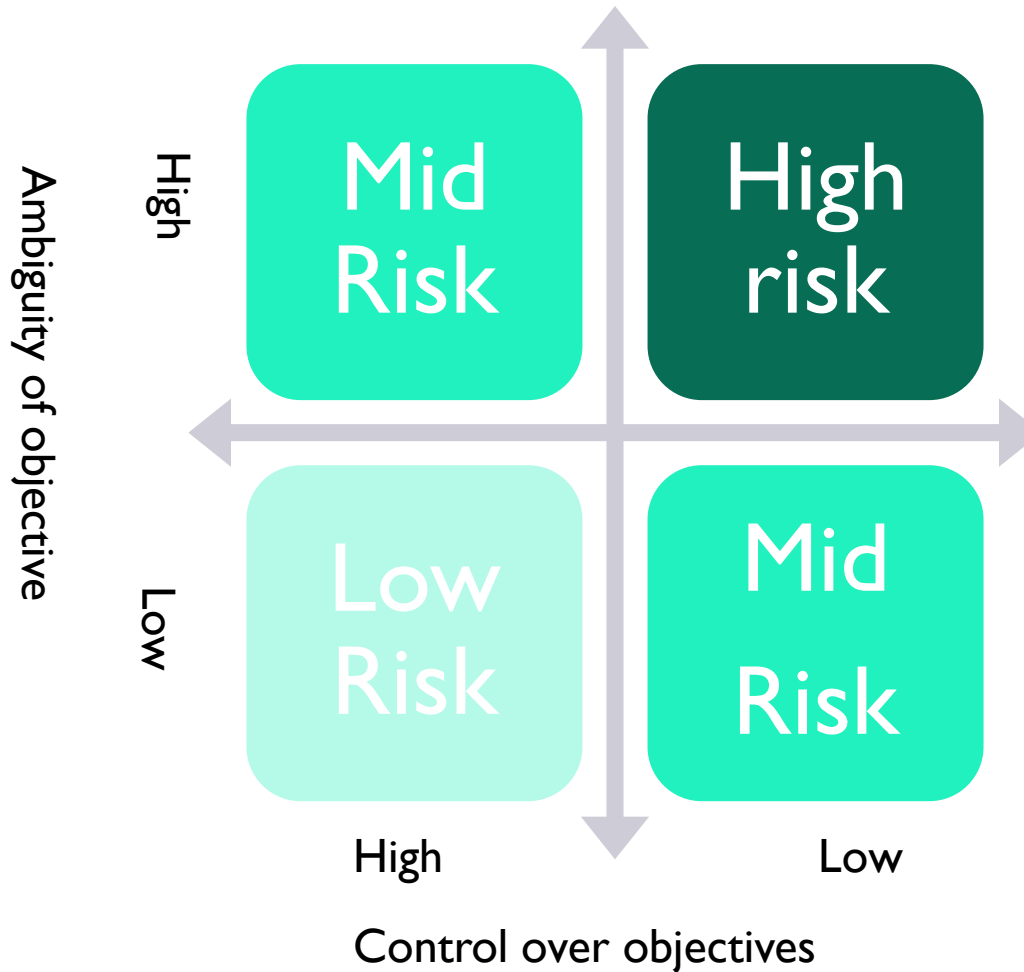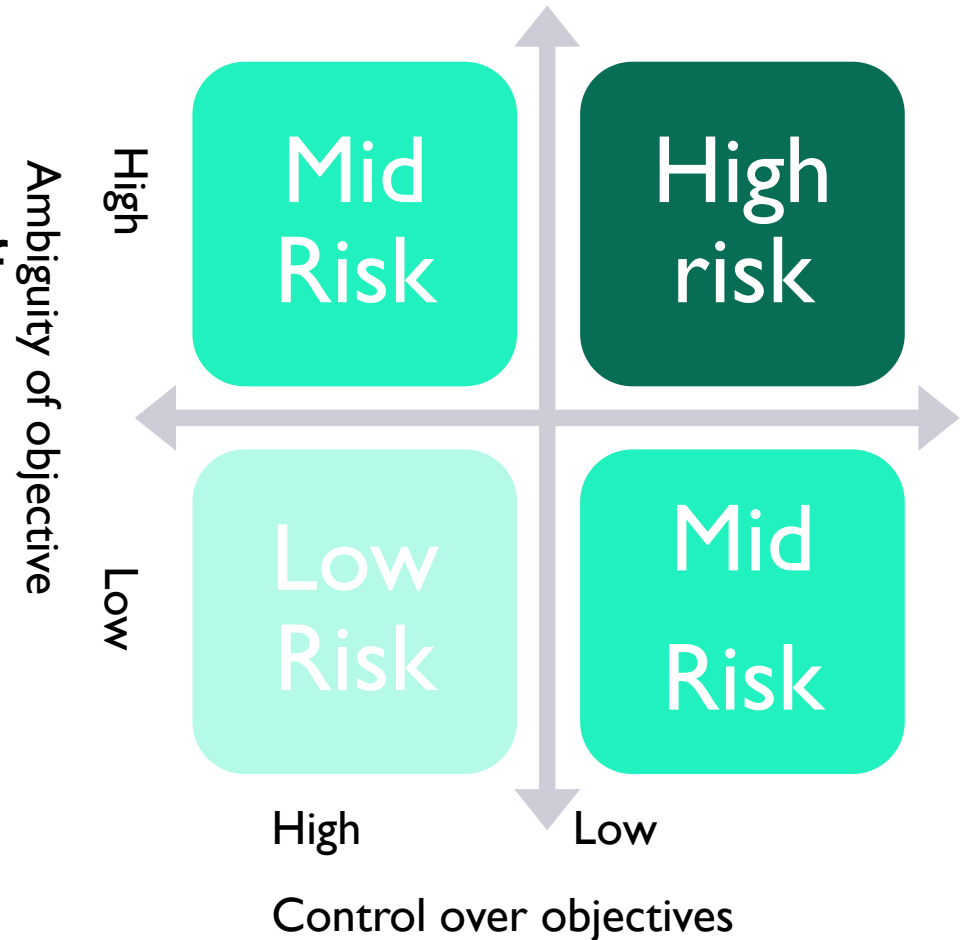Head of Project Risk & Value Management, Network Rail
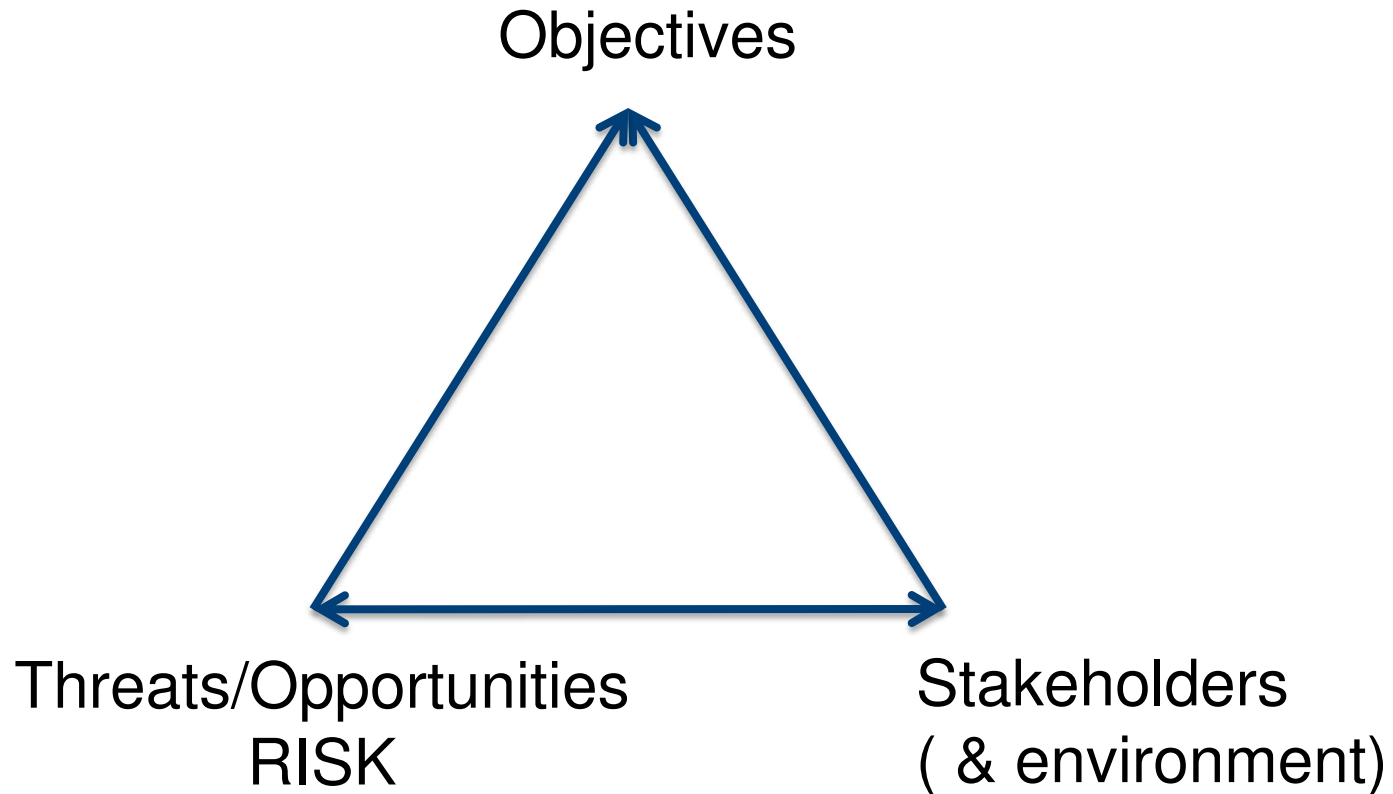
Mason and Mitroff Analysis

Strategic Assumptions Surfacing and Testing

- Review the project objectives
- Identify the degree of influence over the project objectives
- Complete a Mason and Mintroff analysis

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Benefits of Identifying Real Risks

- Clarity about the project objectives.
- Understanding of the project from stakeholders viewpoints.
- Focuses of attention on the 'important' risks.
- Streamlines risk process.
- Builds on work done for similar projects.
- Increased chance of project success.

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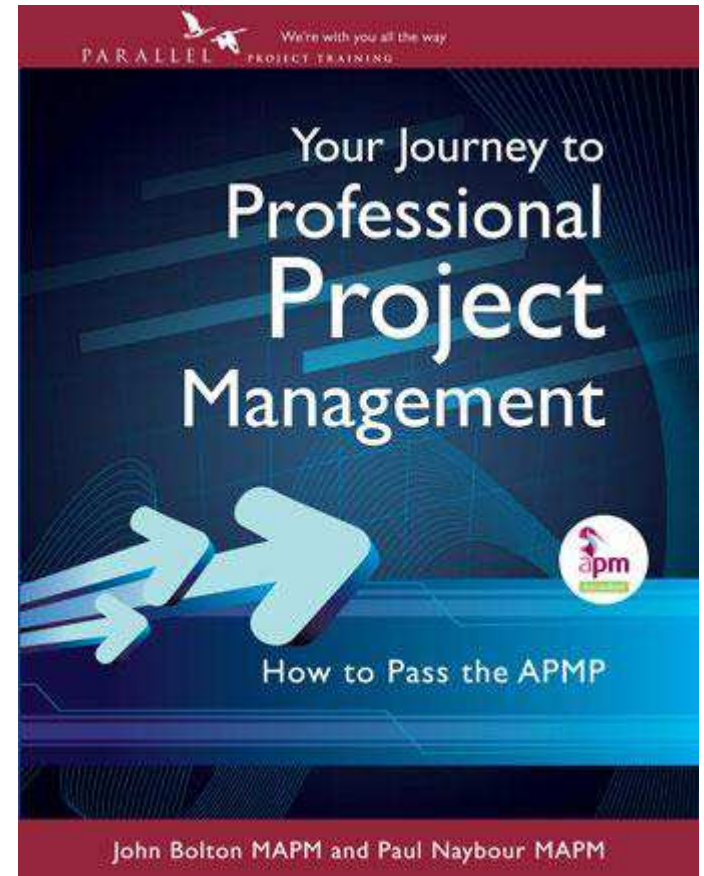
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