8. HANDLING RISK

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Project management 101 *by Zavanak*

8.4 Dealing with risks

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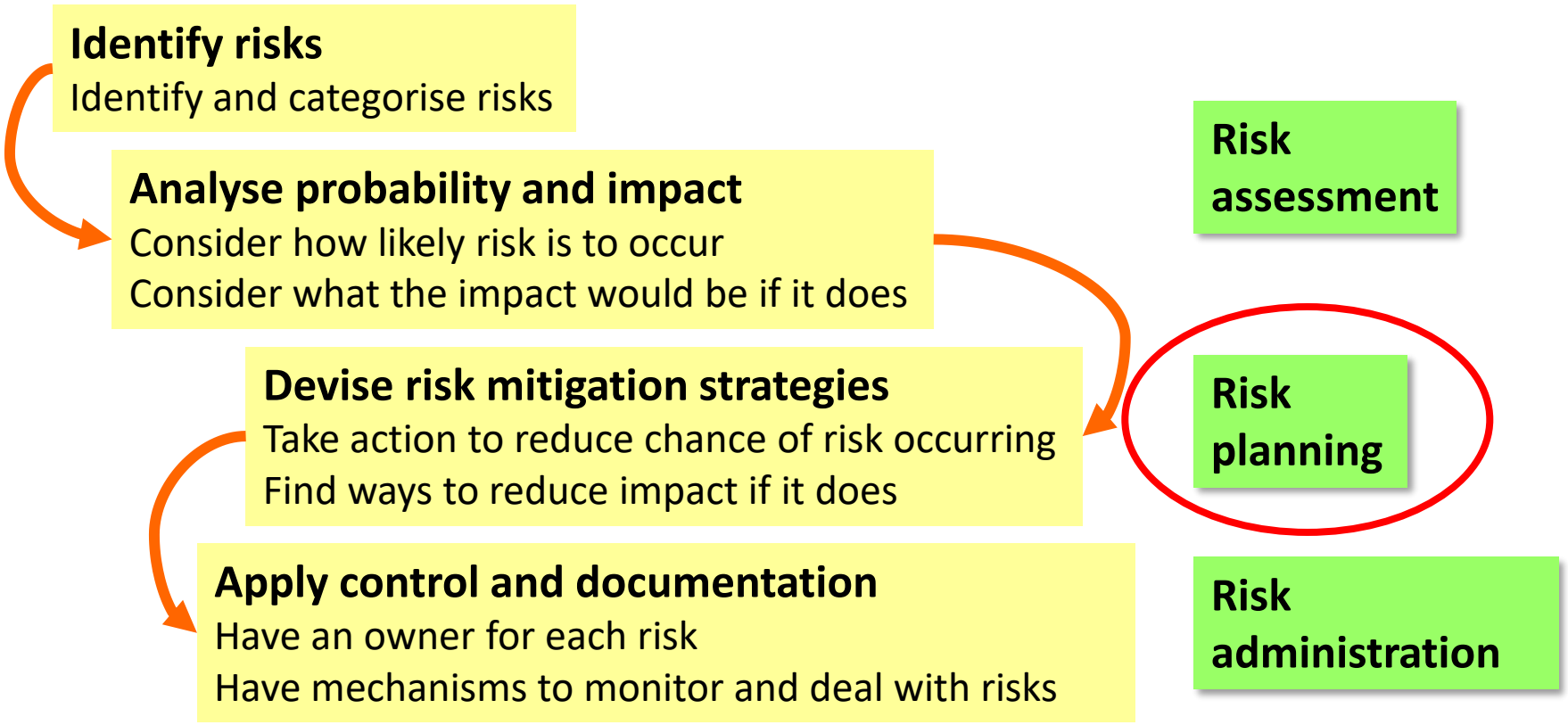
Risk management



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How to deal with a risk

Eliminate it – drive the risk out of the project entirely

Risk: *Decision makers will not approve the project.*

Approach: *Use presentations and lobbying to convince them it is the best proposal.*

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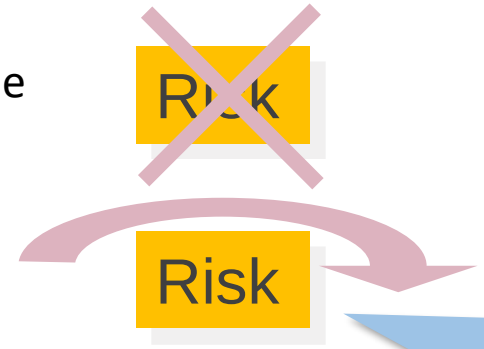
How to deal with a risk

Eliminate it – drive the risk out of the project entirely

Avoid it – find a way round it completely



Risk: *User of device may be electrocuted if live wires touch metal case.*

Approach: *Replace metal case with a plastic one.*

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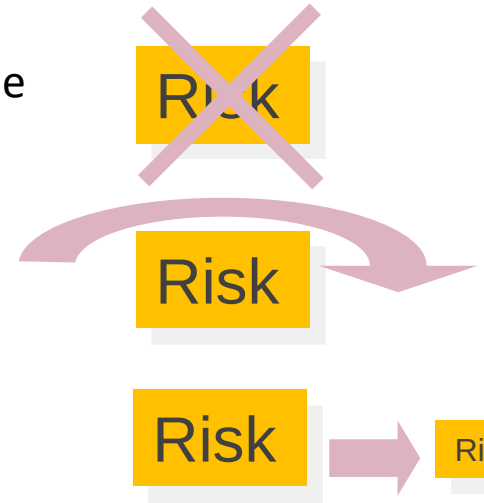
How to deal with a risk

Eliminate it – drive the risk out of the project entirely

Avoid it – find a way round it completely

Reduce it – find ways to reduce the chance or impact



Risk: *Worker may be killed or injured by falling from a height.*

Approach: *Provide proper equipment and safety clothing; train workers in safe practice.*

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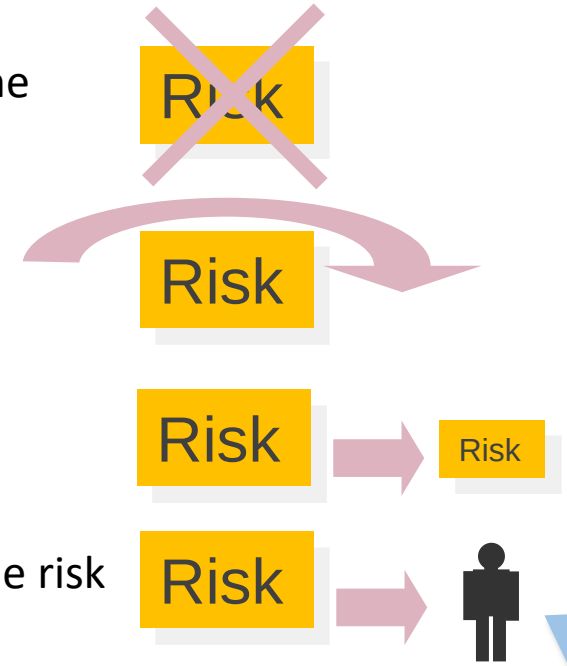
How to deal with a risk

Eliminate it – drive the risk out of the project entirely

Avoid it – find a way round it completely

Reduce it – find ways to reduce the chance or impact

Transfer it – transfer all or part of the risk to someone else



Risk: *A seized bearing will cause expensive damage to a wind turbine.*

Approach: *Make the bearing supplier responsible for any costs due to bearing failure.*

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How to deal with a risk

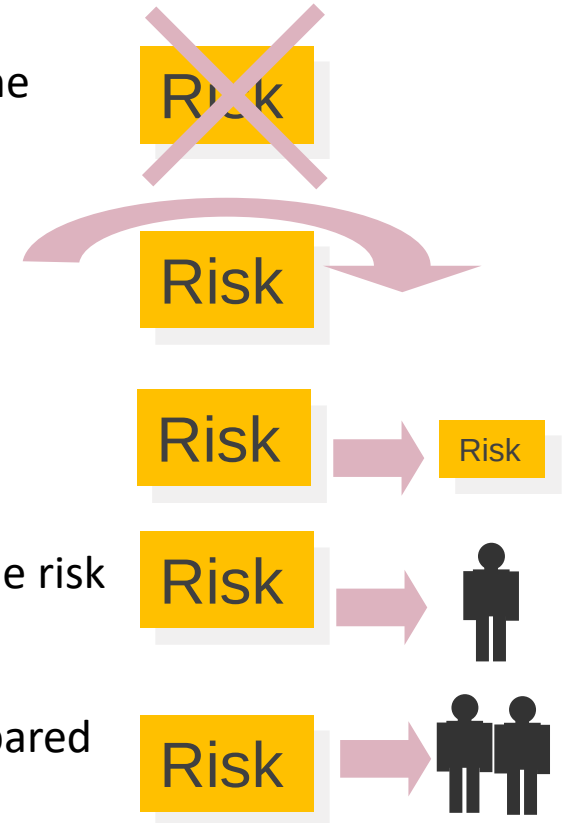
Eliminate it – drive the risk out of the project entirely

Avoid it – find a way round it completely

Reduce it – find ways to reduce the chance or impact

Transfer it – transfer all or part of the risk to someone else

Share it – find a partner who is prepared to shoulder an agreed portion of it



Risk: *The stage musical is a flop and incurs a substantial loss.*

Approach: *A number of 'angels' share the cost of mounting the production, in return for a share of the profits if the show is a success.*

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How to deal with a risk

Eliminate it – drive the risk out of the project entirely

Avoid it – find a way round it completely

Reduce it – find ways to reduce the chance or impact

Transfer it – transfer all of part of the risk to someone else

Share it – find a partner who is prepared to shoulder an agreed portion of it

Accept it – understand the potential consequences, and take the risk

Risk: *The organisation shrinks the project or cancels it because of a downturn in business.*

Approach: *No immediate plan can be made without knowing the exact nature of the risk. But keep aware of the environment around the project.*

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Mitigation and contingency

Mitigation

- Get up to date plans of the building
- **Rehearse how to break into the office**
- Rehearse how to use the special camera
- **Check the forged passes are accurate**
- Wear a convincing disguise
- **Speak the language fluently**

Mission: Copy the secret plans located in this building

Risk: Getting caught

Contingency

- Have a reason for being inside the office
- **Be able to destroy the images**
- Have a pre-planned escape route
- **Have a way to signal to your spymaster**
- Practise being interrogated

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Mitigating risks

Financial risk
Have stage payments for work done
Share funding risk among investors

Technical risk
Use proven technology where possible
Conduct exhaustive real-world tests

Production risk
Carry out thorough surveys of site and environmental conditions

Commercial risk
Support the business case with well-evidenced market research

Contractual or legal risk
Devote sufficient time and money to get well-drafted watertight contracts

Political risk
Spend time understanding the ongoing attitudes of key stakeholders

Project team risk
Emphasise proper equipment and safety training

Environmental risk
Ensure environmental compliance is at the heart of the project

Incentivise project managers to manage risks, not take them.

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De-risking the output design

Employ advanced technology only where the potential benefits are considered to be worth the technical risk

Run small pilots to test the wisdom of particular choices in processes and technology

Create concept designs to validate probable costs and potential benefits

Conduct walk throughs to see whether new operating procedures are workable

Observe how users interact with the prototypes and adjust the design as needed

Build a cost model and apply sensitivity analysis to see how robust the return on investment should be

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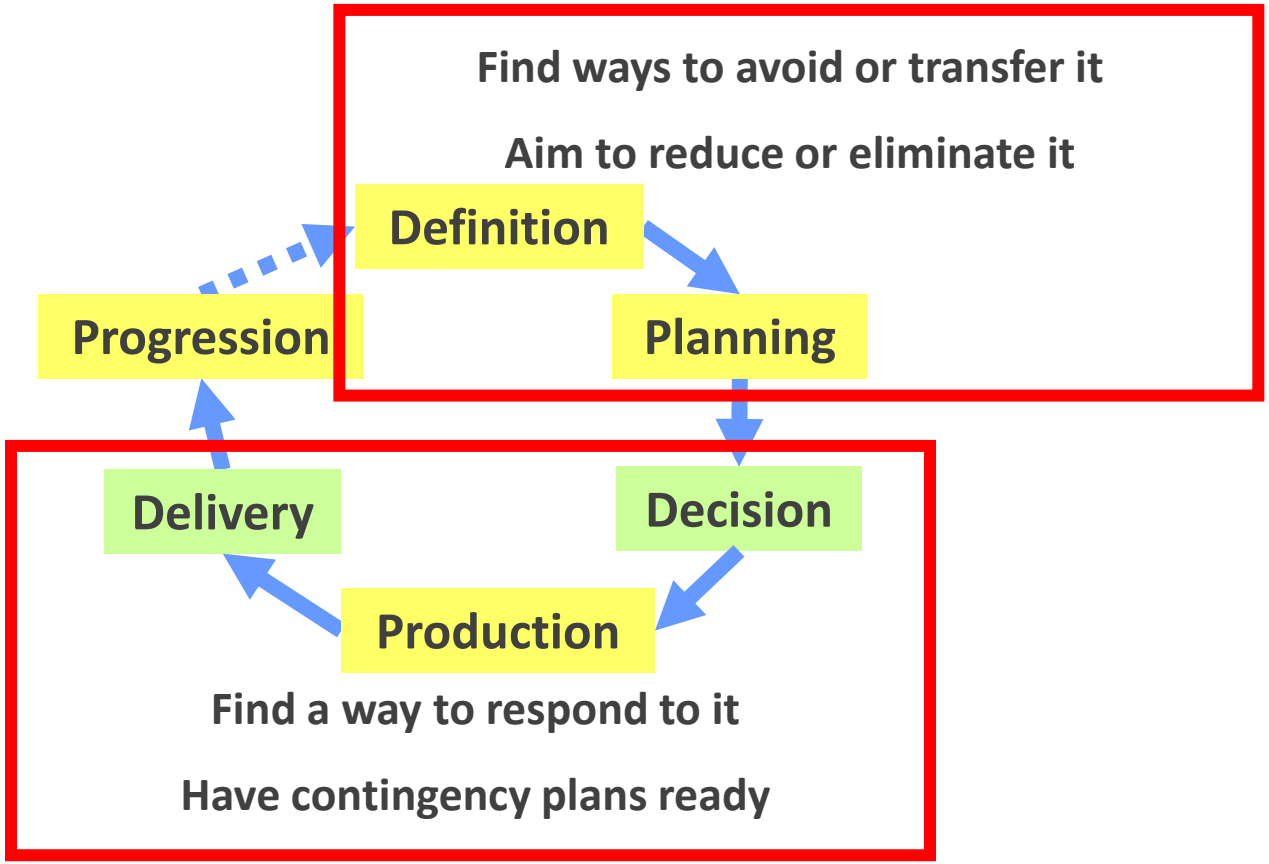
How to respond to risk in the life cycle



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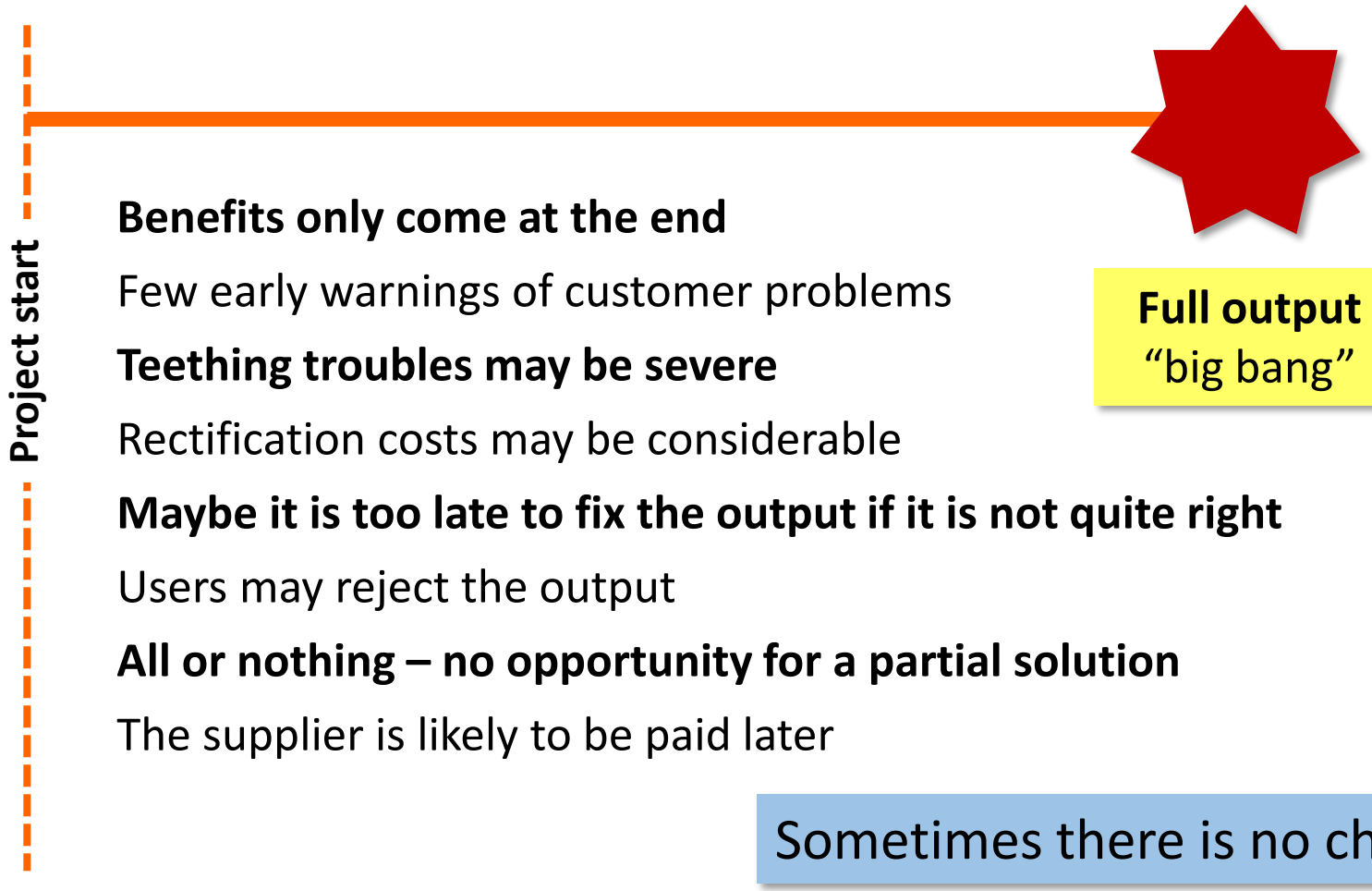
The big bang approach to delivery



Benefits only come at the end

Few early warnings of customer problems

Teething troubles may be severe

Rectification costs may be considerable

Maybe it is too late to fix the output if it is not quite right

Users may reject the output

All or nothing – no opportunity for a partial solution

The supplier is likely to be paid later

Sometimes there is no choice

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The step-by-step approach to delivery

Benefits some earlier – 'quick-wins'

Users see parts of the output and can raise concerns earlier

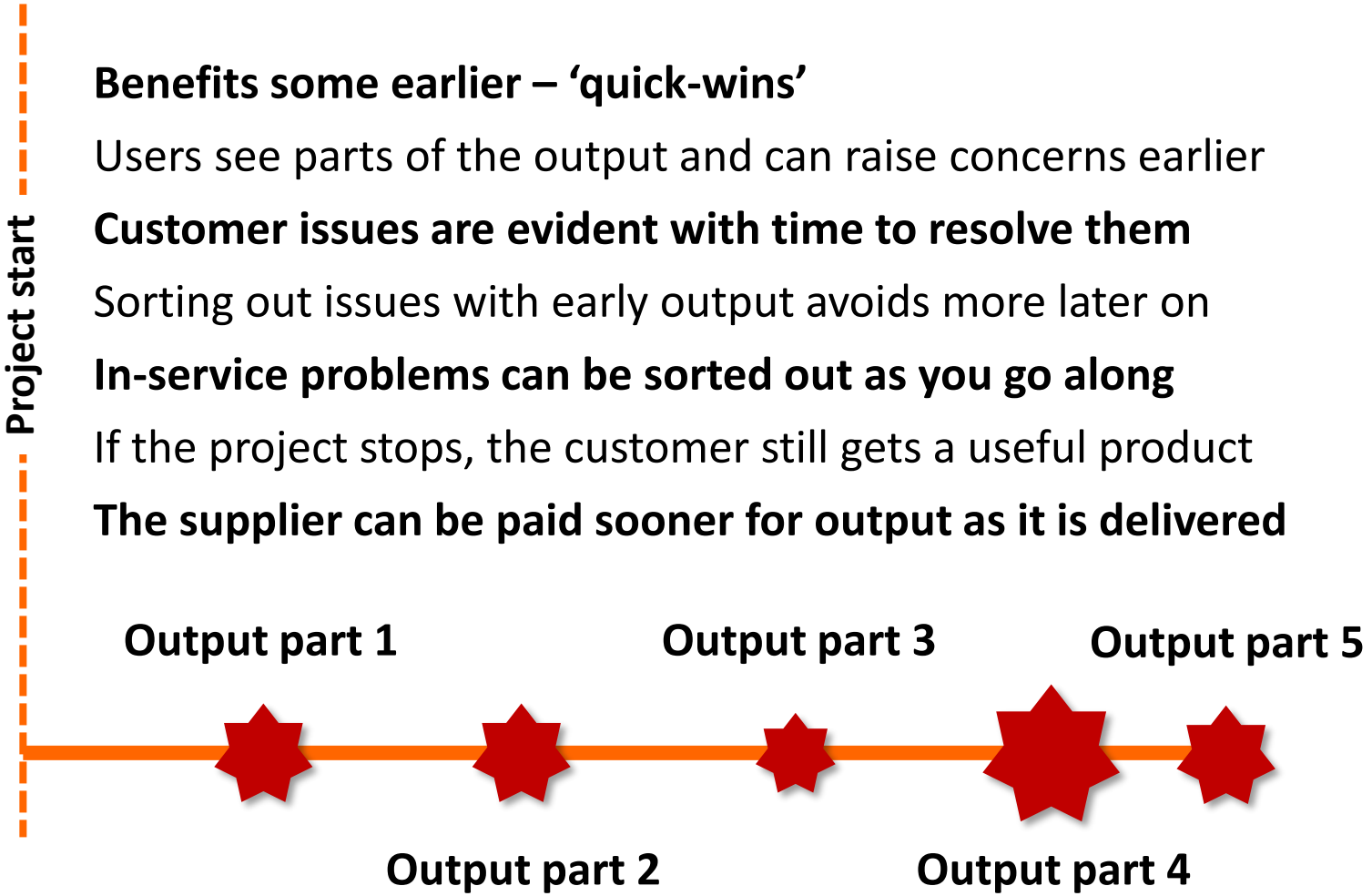
Customer issues are evident with time to resolve them

Sorting out issues with early output avoids more later on

In-service problems can be sorted out as you go along

If the project stops, the customer still gets a useful product

The supplier can be paid sooner for output as it is delivered



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Management techniques to reduce risk

Get the best project manager you can

Give them a sensible level of authority

Have frequent, open communications

Have first class problem handling

Have frequent project monitoring and reporting

Plan thoroughly – use a proper work breakdown structure

Emphasize support for the team

Keep a close eye on discretionary spending

Make sure estimates are realistic

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Important points about risk

Any risk should be allocated to and borne by the party best able to manage it.

AND REMEMBER

1. Whatever the plans and contracts say, **the client** (who has defined the output and is paying for it) **ultimately bears the project risks**.
2. The client will be judged as responsible for what other organisations do in its name, whatever the contract says.
3. If the project is a failure in any sense, it is the client's reputation which is at stake.
4. Never sign any contract until you fully understand the risks you carry as a result.

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