

Risk Management

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Lecture3



MGM 510

Risk Management



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

What is Risk Management?

Good management practice

- Process steps that enable improvement in decision making
- A logical and systematic approach
- Identifying opportunities
- Avoiding or minimising losses

What is Risk Management?

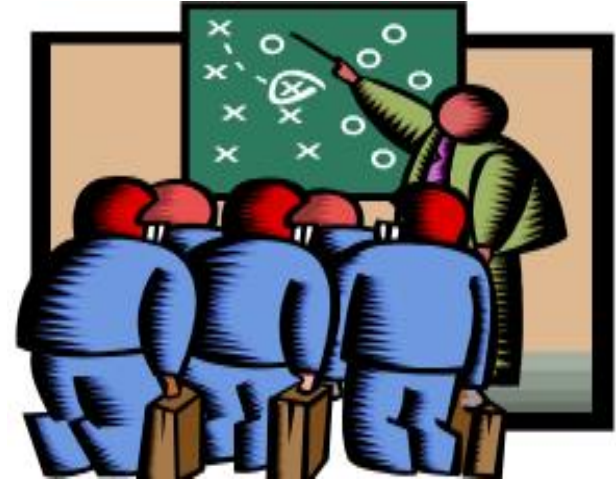
Risk Management is the name given to a logical and systematic method of identifying, analyzing, treating and monitoring the risks involved in any activity or process.

What is Risk Management?

Risk Management is a methodology that helps managers make best use of their available resources

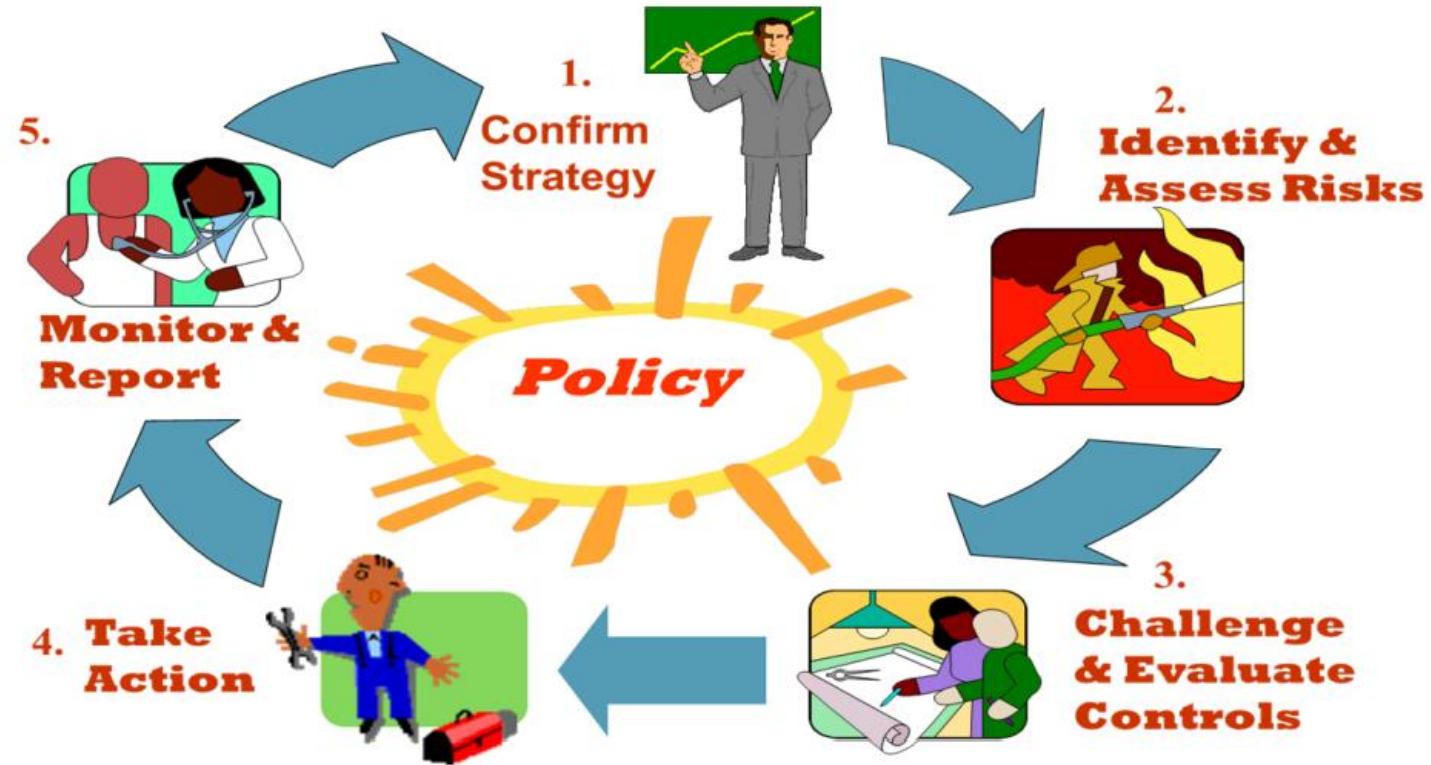
Risk Management – why do we need it?

- ☐ Promotes good management
- ☐ May be a legal requirement depending upon industry or sector
- ☐ Resources available are limited – therefore a focused response to Risk Management is needed



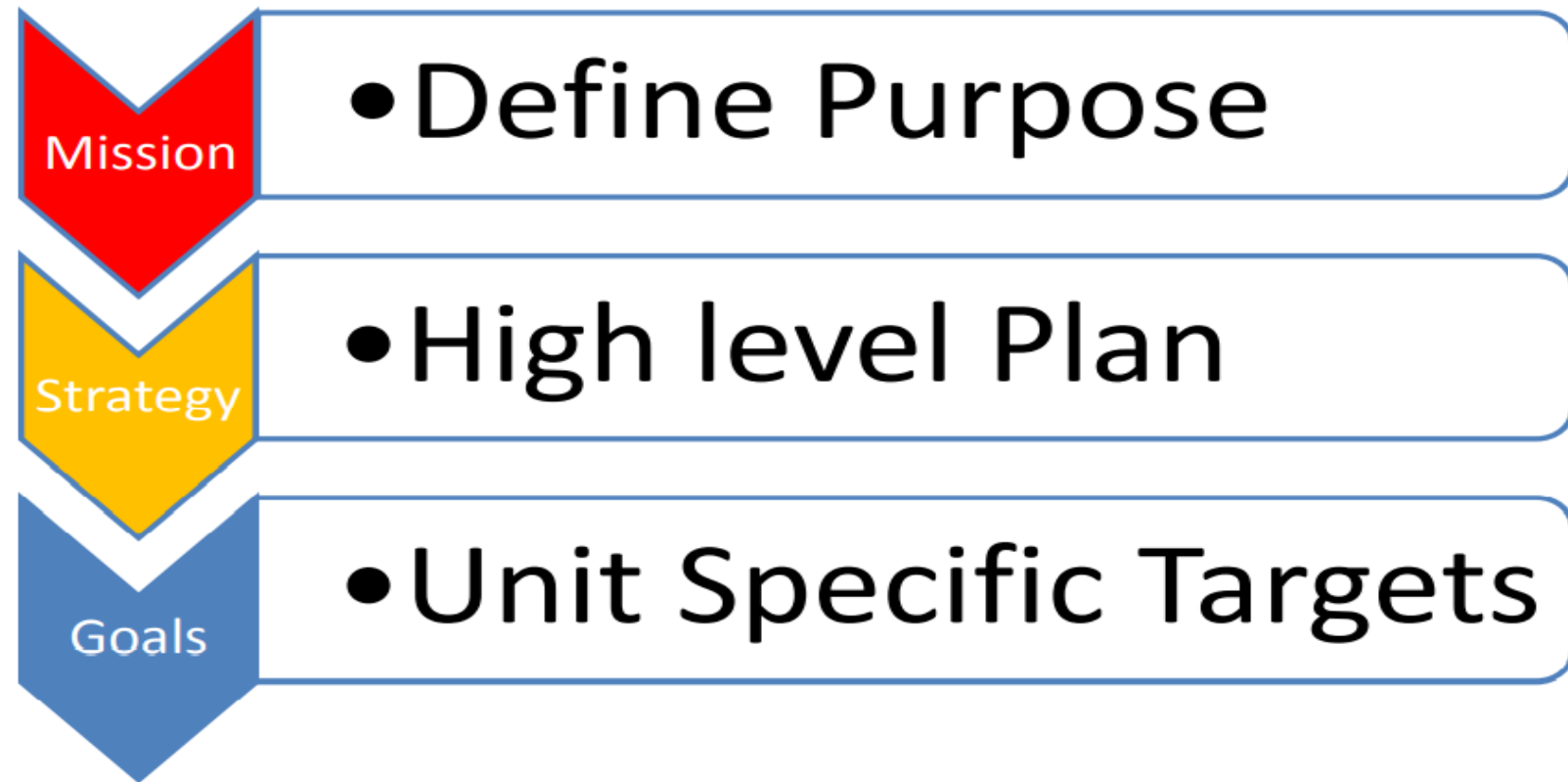
Risk Management

The Risk Management Cycle



Risk Management

Risk Management Cycle – Step 1



Risk Management

Risk Management Cycle – Step 2

Risk Identification – what are the threats and uncertainties associated with my organization's or units objectives?

- ☐ Separate out the risk into its cause & possible effect
- ☐ Be concise & clear
- ☐ Do not concentrate on symptoms only

Types of Project Risk



Types of Project Risk

15

Categories for
Project Risks

Beyond the basics of what “risk” means, project managers should also know the different types of risks they may encounter. Depending on the project type, the factors that should be considered will differ.

So, let's jump straight in and look at these categories for project risks..

1- Political:

Most projects will be affected by organizational politics, but you should also be aware of the possibilities of impact from local or national politics (or even international politics, if that's appropriate for your project).

A change in government will affect policy decisions and potentially funding, especially for projects with an element of public sector work or those working with government bodies.

2- Economic

The economy has a huge impact on businesses, and that filters down to have an impact on certain projects.

3- Technological: Technology is moving on at a rapid speed, and it's possible that technological changes could make your project more or less viable over a period of time. This should be built into your approach to managing volatile projects. **There are also risks relating to using new technology for the first time, or in an immature way.**

4- Legal:

Your Legal team or advisors should be connected to changes in the law and regulations affecting your industry. These may have implications for projects that should be considered. A risk resulting from legal changes that may mean your project is no longer viable.

5- Market:

Some industries have a more stable marketplace than others, and you'll know your own market well. Risks relating to your position in the market, the demand for your goods and services and the rise of new competitors can all affect your project.

15 Categories for
Project Risks



6- Supply Chain:

Internal

External

Rarely these days will you do a project that has no reliance on anyone else. Whether that's the manufacturer of a critical part for your product, or a vendor supplying you with cloud-based software, our organizations are more linked together than ever before.

This creates risk, because when one part of the supply chain fails, the downstream implications can be significant. A supplier going bankrupt could put your project back months. Bad weather on the other side of the world could lead to crucial electrical components failing to make it your manufacturing plant on time.

Supply chain risk can also be internal, as your project team will rely on other departments to provide subject matter expertise to the project. If the people or services you need from your own staff are delayed, this can also affect the success of your project.



7- Organizational

This type of risk relates to changes in the organizational structure. This might apply if you have a change of leadership, which might in turn lead to a change in strategic direction. It's crucial to make sure project teams are aware of these risks and then what to do if they happen, because something like this could quickly make a project unviable

8- Operations

These risks relate to impacts **on how your business** is run. That could be anything from risk that would impact the ability to keep a critical process running in the factory through to making sure the project goes ahead without impacting your customer services.

9- Environmental:

Environmental risks range from those that could expose your organization to fines or even legislative action, such as illegal dumping, through to ensuring that your internal environmental policies are adhered to.

Risks in this category are likely to be heavily tied to your position on corporate and social responsibility, and can also affect reputational risk, for example if your business is seen to be polluting.

10- Financial

Financial risks on projects relate to funding cycles, access to funding and making sure that the cash flow is available to pay invoices on time. It's prudent to consider financial risks to projects because if there are problems in this area, projects could stall, putting all prior investment at risk of being wasted.



11- Resources:

Specifically, non-people resources. This kind of risk relates to whether you can get access to the equipment, materials and other resources required to deliver the project in a timely fashion. Risks around delivery of equipment or the inability to source specialist materials would fall into this category.

12- Staffing:

Alongside non-people resources, you also have to consider staffing risks. These are things like the right people not being available at the right time due to other projects overrunning, or lack of expertise within your business. It would also extend to the risk of staff sickness, and poorly timed vacations.

13- Scheduling :

Risks in this category affect the project timeline. A common risk here is that a task turns out to be more complicated than expected, and so it takes longer. This would add delay to the schedule if the task is on the critical path.

14- Reputation:

focusing on the public face of your business, think about the impact on investors and on your own staff.

15- Other

It's useful to have an 'other' category!

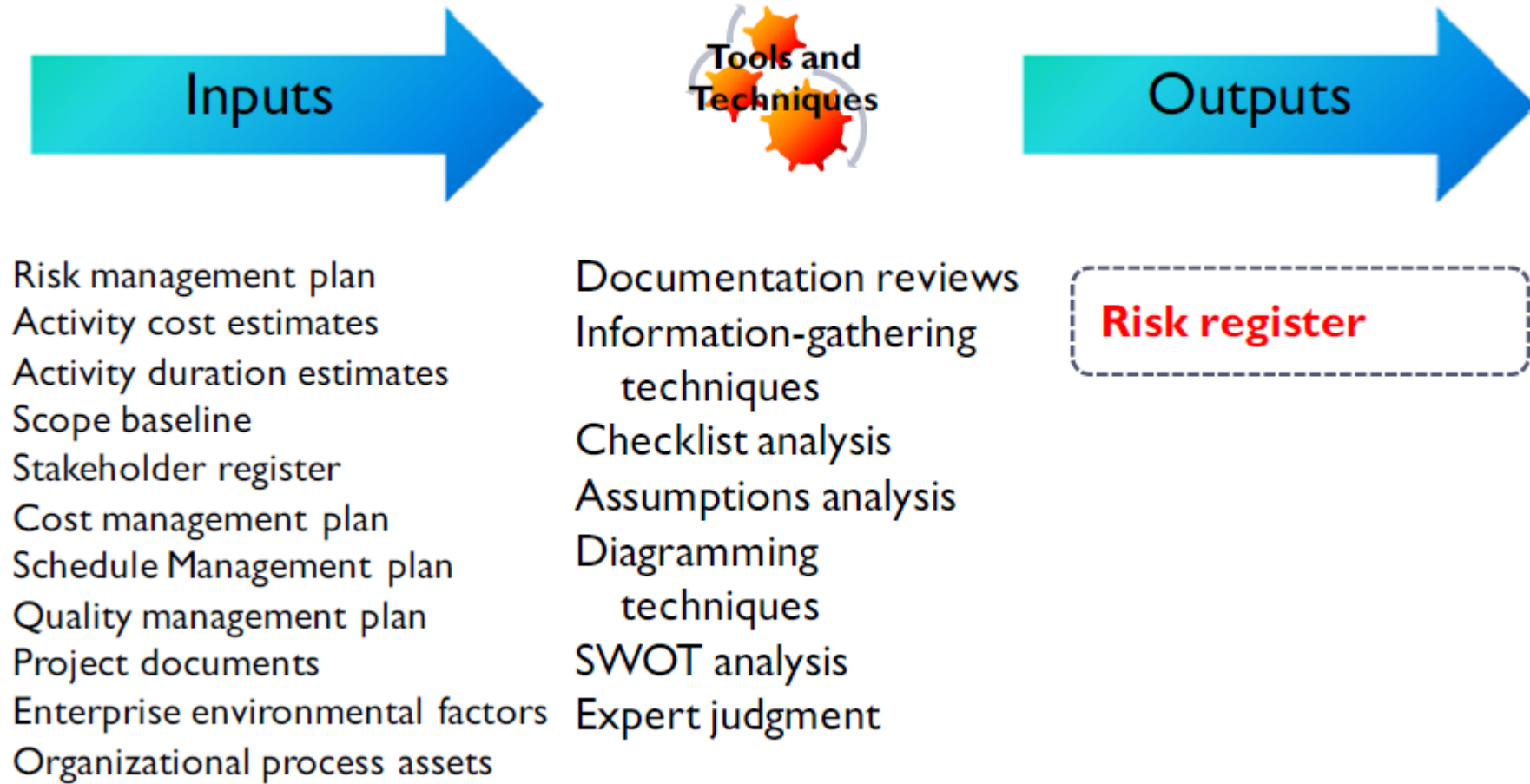
15 Categories for Project Risks

Chapter 01

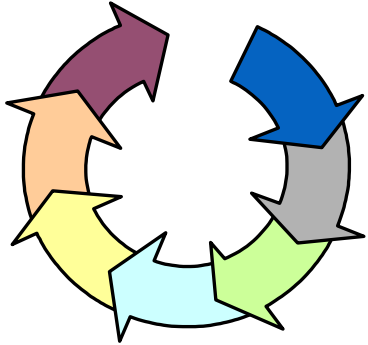
Types of Project Risk



identify risk



The Risk Management process:



Identify the risks

Defining types of risk, for instance, 'Strategic' risks to the goals and objectives of the organization.

- Identifying the stakeholders, (i.e., who is involved or affected).
- Past events, future developments.

Monitor and review

Communicate & consult



There are several types of risks that occur frequently, regardless of the specifics of the project. These common types of risk include:

- **Cost:** The risk of events that impact the budget, especially those that cause the project to be completed over budget. Errors in cost estimation commonly generate risk in addition to external factors.
- **Schedule:** The risk of unplanned scheduling conflicts, such as events that cause the project to be delayed. Scope creep is a common reason for scheduling issues and project delays.
- **Performance:** The risk of events that cause the project to produce results that are inconsistent with the project specifications.

The above-mentioned risk information gathering techniques are well established and have been in use for many years.

Brainstorming

Delphi Technique

Root Cause Analysis

Expert Interviewing

SWOT Analysis



Brainstorming and Delphi

Brainstorming is a technique developed by Alex Osborn, The four fundamental steps to brainstorming are as follows:

1. **Focus on quantity:** The idea is to facilitate problem solving through the concept, quantity breeds quality. The idea assumes that the greater the number of ideas generated, the greater the chance of producing an effective solution.
2. **Withhold criticism:** In brainstorming, criticism of ideas generated is postponed until the team is ready to analyze the input. Instead, participants focus on extending or adding to ideas. By suspending judgment, participants will feel free to generate unusual ideas.
3. **Welcome unusual ideas:** To get a good and long list of ideas, unusual ideas are welcomed. They can be generated by looking from new perspectives and suspending assumptions. These new ways of thinking may provide better solutions.
4. **Combine and improve ideas:** Good ideas may be combined synergistically, to form a single improved good idea, as suggested by the counterintuitive "1+1=3". It is believed to stimulate the building of ideas by a process of association.

Delphi Technique



The Delphi Technique was developed by the RAND Corporation (an acronym for **R**esearch **A**nd **D**evelopment) in the 1960s and was created as an interactive forecasting method that relies on a panel of independent experts. Usually, all participants maintain anonymity. Their identity is not revealed even after the completion of the final report. This stops them from dominating others and using their authority or personality. This frees participants from their personal biases, minimizing the "bandwagon effect" or "halo effect", allowing them to freely express their opinions, encouraging open critique and admitting errors by revising earlier judgments.

Root Cause Analysis (RCA) and Expert Interviewing



The RCA Technique RCA is a reactive method of problem detection and solving, initially. The analysis is performed after an event has occurred. This allows practitioners to identify process 'triggers', so that RCA becomes a proactive method. In other words, RCA is able to forecast the possibility of an event before it might occur.

Expert Interviewing is the process of interviewing subject matter experts to obtain critical information for the project.

SWOT Analysis



This one analysis is generally set up as a grid with strengths and weaknesses as the two major columns, and opportunities and threats as the two major rows in the grid.

The idea is to see where the organization's strengths and weaknesses play against opportunities and threats using the four following comparisons:

	Strengths	Weaknesses
Opportunities		
Threats		

SWOT Analysis



- **Strengths-Opportunities** - identifies how organizational strengths help the organization to capitalize on opportunities
- **Weaknesses-Opportunities** - identifies organizational weaknesses, from the perspective of making the necessary improvements, to enable the organization to capitalize on opportunities
- **Strengths-Threats** - identifies how our organizational strengths help us deal with competitors or threatening situations
- **Weaknesses-Threats** - identifies how our organizational weaknesses leave us vulnerable to external competition or threats

	Strengths	Weaknesses
Opportunities		
Threats		



Chapter 02

The Risk Register

Risk Register													
Project						PM							
Project ID						Updated							
Sponsor						Version							
Risk Priority	Description	Probability	Impact	Result	Risk Category	Risk Trigger	Response Strategy	Contingency strategy	Owner	Entry Date	Response Due Date	Actual Date	Risk Realized?
				0									
				0									



The risk register becomes a key planning tool for the project. Understand that although a risk identifies only the probability of an event occurring, the possibility of the event is deemed to be real, true and requires assistance in monitoring.

The risk register : contains a description of the risk, it's probability, its impact in dollars, a category of risk, the triggering event that indicates the risk is about to occur, the risk response strategy, the risk owner, the date the risk was identified, a due date for resolution and most importantly, the risk's priority.

Note

Any risk with a probability percentage of 70% or greater is no longer a risk, it's an issue!

Risk Register content

- ☐ A Risk Register is a management tool used to record relevant details relating to risks.
- ☐ It is a database of information on risks.
- ☐ Best kept simple to begin with!

Lecture 3

Risk Register Example

Risk Register									
XYZ Charity									
Prepared by: Management Team									
Date: August 2013									
Ref #	Risk Description	Controls/Actions already in place	Impact	Likelihood	Weighting	I/M/H	Risk Owner	Further Actions Required	Date when further actions will be in place
1	Reduced Funding - Decrease in funding from central government - Reduction in public donations due to recession - Reduced income at 2nd hand clothing shops due to competition from door collectors. All could cause a reduction in the charities activities.	1) Budgets - all units now prepare 1 year rolling budgets which are reviewed each quarter by Finance Officer and each 6 months by Board. 2) Close down of 1 shop on a temporary basis.	4	4	16	H	Board	1) Management to explore alternative sources of income & report to Board. 2) Possibility of converting current bank overdraft facility into a longer term less expensive bank loan is been explored.	1) March 2014 2) January 2014
2	Onerous Property Leases Of the 10 shops in operation 5 are under rental leases which impose a very expensive yearly rent. In these cases the rental charge for the branch comprises 50% or more of all the branch costs.	Negotiations have been opened with landlords but there is concern as so far they are unwilling to reduce the rent.	3	5	15	M	Management Team	Alternative branch locations been examined	June 2016
3	Theft from Stores Following an incidence of robbery of cash takings from 1 shop last year there is a risk that shop controls & security measures may not be good enough to safeguard staff & cash.	1) A review of cash controls and procedures was carried out by central management using the services of a consultant. 2) Revised security procedures for the collection of cash takings have been put in place.	1	3	3	L	Operations Manager	No further action is considered necessary at this time.	None
Risk Weighting Values						16+	= High Level Risks		
						8-15	= Medium Level Risks		
						0-7	= Low Level Risks		



Commonly Used Risk Management Examples

Risk Avoidance

Customer Credit Risk Management

Industry-Specific Strategy

Elimination of Contract Risk

Compliance Risks

Safety Risks

Market Risk

Information Security Risk

Risk Transfer