



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Everyone's Smart University

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Section

Master

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Project Risk Management

Introduction

Risk is an anticipated uncertain event that may occur in the future. The risk may have both positive and negative impacts on the project outcomes. Risks may occur at any point of the project, from research and development to the launching phase. The risks could be within the business, outside the business, known as non-business risks and financial risks. Business risks occur when a company invests in its products to attract shareholders (Paul,2014). They can be controlled and diversified by the company. Non business risks are risks that occur outside the scope of the business. They occur due to natural events and are beyond the company's control. Financial risks occur when the company makes losses due to instabilities or changes in the economy. Good project

management should put aside funds to deal with the losses incurred in the occurrence of the anticipated event. A project manager may also appoint a risk manager who will estimate the expected occurrence of the risk and take appropriate actions.

Risks may occur in different phases of the project. Risks that may occur during the research development include the availability of funds or sponsorship to fund the project. The project manager invests in research without assurance that he will get enough funds to develop the product. The risk may also occur during the development. The equipment involved in the manufacturing or production process may break down. This may pose a big problem, especially when no funds were set aside for the unanticipated events. The logistics vehicle that transports the raw materials may break down, or a supplier may disappear with the materials. The project manager takes a risk by developing a product based on the assumption that the consumers will like it.

Risks also occur in the testing phase. The company invests in the testing process, and the consumer may end up rejecting the product. The company may also face stiff competition after introducing the product into the market. It may suffer great loss, which may cause it to cease Production. The company may anticipate good reception of the products by the customer and quick cash flows. There may be economic delays, and the company may register losses during the post-launch phase. There is also the risk of an increase in the operation and administrative costs, such as training and recruiting new employees.

Risk Probability Matrix

Risk	Probability	Impact
Manufacturing Equipment Breaking Down	High	High
Delay in Production due to lack of funding for raw materials	Medium	Low
Loss of Raw Materials to suppliers	Low	Low

Lack of funding for developing the product	High	High
Stiff competition	High	High
Increased Operational Costs due to training and recruitment of new employees	High	High
Delay in consumer response to the product	Medium	High
Theft	Low	High
Destruction of property by natural disasters	Low	High

Description of Risks

Manufacturing equipment may break down during Production. The probability of this occurring is high. This will stop the production process hence have a high impact on the organization. Production may be delayed or stopped for a while when there are no funds to order new materials. The probability of its occurrence is medium. It may not greatly impact the production process. There is a risk of losing raw materials to suppliers. This is possible where the companies have a payment plan of paying for the materials before delivery. The probability of this occurring is low since the company should only transact with trusted suppliers. The occurrence of this risk will have little or no impact on the organization.

Once the research is over, the company faces the risk of lacking funds to develop the product. It will incur losses due to the expenses incurred in conducting research. The probability of occurrence of this event is high and may have a high impact on the organization if it occurs. The company is likely to face stiff competition from the companies that already have an established client base. It may be difficult for the

company to penetrate the market, especially if monopolies dominate it. This is an anticipated event, and the probability of its occurrence is high. It will highly impact the organization and may lead to cessation of Production and exiting the market. There are risks of increased operational costs and administrative costs. This includes costs incurred in training the employees and recruiting new employees. The revenue generated from the product may exceed the expenses in the first phase. The probability of its occurrence is high. This risk has a high impact on the success of the company.

There is the economic risk of delay in consumer response to the product. This may occur in the first phase and may last up to one year. The probability of its occurrence is high. The company may lose property to natural disasters such as fire and storms. The company property may also be stolen and the managers may embezzle finances. The probability of occurrence of such risks is low. The company should put aside disaster management funds to manage the events. Its occurrence will have a high impact on the organization.

Risk Indicators

The economic recess may be an early indication of inadequate funding for the project. It may also indicate that there will be a delay in consumer response. Therefore the project managers will take corrective measures. Unfavorable weather conditions such as rainy seasons are indicators of the possibility of destruction of property by floods or earthquakes. The company may not have enough funds to acquire quality manufacturing equipment and hence settle for obsolete ones. This is an indication of regular interruption of Production. Also, if most of the supplies are obtained from rural areas, regular delays in Production should be anticipated. The infrastructure in rural areas is poor hence making it difficult to transport the raw materials to the company.

Risk response strategies.

These are strategies that are implemented to reduce the negative effects of risk. The strategies that can be adopted include avoiding, accepting, monitoring the risk, averting, and transferring the risk(Tony&Faissal,2008). Risk avoidance involves taking actions to avoid the risk. This includes a part of the project that carries the highest risk. The

second strategy is accepting the risk and drawing financial plans that include the risk. This is necessary where risk avoidance is not possible. The third strategy includes monitoring the probability of occurrence of the risk and drawing action plans to manage it. Fourth is mitigating the risk. This involves using the risk indicators to determine the probability of the risk occurring and their potential impacts on the organization. The risk manager then develops the appropriate actions in anticipation of the occurrence of the risks. The fifth strategy is transferring the risk to another party. This usually involves purchasing insurance covers.

I will take insurance covers for the property and equipment. In case of property loss due to fire, floods, or any natural disaster, I will be compensated for the loss incurred. When there is economic recess, I will avoid the risk by postponing the product launch until boom periods. I will avoid loss of funds due to delay in customer response. I will also monitor the market to see the products that are in demand. If the product is in demand and the competitors are charging a high price, I will take advantage of the period and offer the product slightly. Additionally, I will accept that certain risks, such as a rise in operational costs, are inevitable. I will therefore incorporate them into my budget.

Expected Monetary Value (EMV)

$EMV = \text{Probability} * \text{Matrix}$

- Manufacturing Equipment Breakdown
 $EMV = 9 * 20,000$
 $= \$180,000$
- Delay in Production
 $EMV = 7 * 10,000$
 $= \$70,000$
- Lack of Funding for Product Development
 $EMV = 7 * 50,000$
 $= \$350,000$
- Stiff Competition

$$\text{EMV} = 5 \times 5,000$$

$$= \$25,000$$

- Delay in Consumer Response

$$\text{EMV} = 6 \times 30,000$$

$$\$180,000$$

Total EMV for the project = \$805,000

References

- Hopkin, P. (2014). *Fundamentals of risk management: Understanding, evaluating, and implementing effective risk management*. London: Kogan Page Limited.
- Merna, T., & Al-Thani, F. (2008). *Corporate risk management*.

