



Everyone's Smart
University

Principles and aims of risk management

Lecture 5

PMG510

Project Risk Management

Principles of risk management



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- The main principle of risk management is that it delivers value to the organization. Risk management activities are designed to achieve the best possible outcome and reduce volatility or uncertainty of outcomes.

Principles of risk management



- a successful risk management initiative (and framework) will be:
 - proportionate to the level of risk within the organization;
 - aligned with other business activities;
 - comprehensive, systematic and structured;
 - embedded within business procedures and protocols;
 - dynamic, iterative and responsive to change.

Principles of risk management



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 - proportionate to the level of risk within the organization;
 - aligned with other business activities;
 - comprehensive, systematic and structured;
 - embedded within business procedures and protocols;
 - dynamic, iterative and responsive to change.
- This provides the acronym PACED and provides a very good **set of principles that are the foundations of a successful approach to risk management within any organization.**

Principles of risk management



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Principle	Description
Proportionate	Risk management activities must be proportionate to the level of risk faced by the organization.
Aligned	ERM activities need to be aligned with the other activities in the organization.
Comprehensive	In order to be fully effective, the risk management approach must be comprehensive.
Embedded	Risk management activities need to be embedded within the organization.
Dynamic	Risk management activities must be dynamic and responsive to emerging and changing risks.

Principles of risk management



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- It is useful to separate the principles of risk management into two distinct lists: what should be the characteristics of risk management, as listed above; and what it should deliver, as listed below:
 - mandatory obligations placed on the organization;
 - assurance regarding the management of significant risks;
 - decisions that pay full regard to risk considerations;
 - effective and efficient core processes.

Principles of risk management



- The table below sets out the possible purpose or motivation for a risk management initiative as mandatory, assurance, decision making and effective and efficient core processes (MADE2). **Core processes represent the activities of the organization and can be strategic, tactical, operational or compliance (STOC) in nature.**

Principles of risk management



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Objective	Description
Mandatory	The basic objective for any risk management initiative is to ensure conformity with applicable rules, regulations and mandatory obligations.
Assurance	The board and audit committee of an organization will require assurance that risk management and internal control activities comply with PACED.
Decision making	Risk management activities should ensure that appropriate risk-based information is available to support decision making.

Principles of risk management



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Objective	Description
Effective and efficient core processes	Risk management considerations will assist with achieving effective and efficient strategy, tactics, operations and compliance to ensure the best outcome with reduced volatility of results.

Principles of risk management



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- The objectives for risk management provide the acronym MADE2 and this confirms that outputs from risk management will lead to less disruption to normal efficient operations, a reduction of uncertainty in relation to tactics and improved decisions in relation to evaluation and selection of alternative strategies. In other words, a key part of risk management is improved organizational decision making.

Risk management activities



- Risk management is a **process** that can be divided into several **stages**.
- The process can be represented as the 8Rs and 4Ts of hazard risk management.

Risk management activities



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TABLE 4.3 8Rs and 4Ts of (hazard) risk management

- 1** Recognition or identification of risks and identification of the nature of the risk and the circumstances in which it could materialize.
- 2** Rating or evaluation of risks in terms of magnitude and likelihood to produce the 'risk profile' that is recorded in a risk register.
- 3** Ranking or analysing the current or residual level of risk against the established risk criteria or risk appetite.
- 4** Responding to significant risks, including decisions on the appropriate action regarding the following options:
 - tolerate;
 - treat;
 - transfer;
 - terminate.

Risk management activities



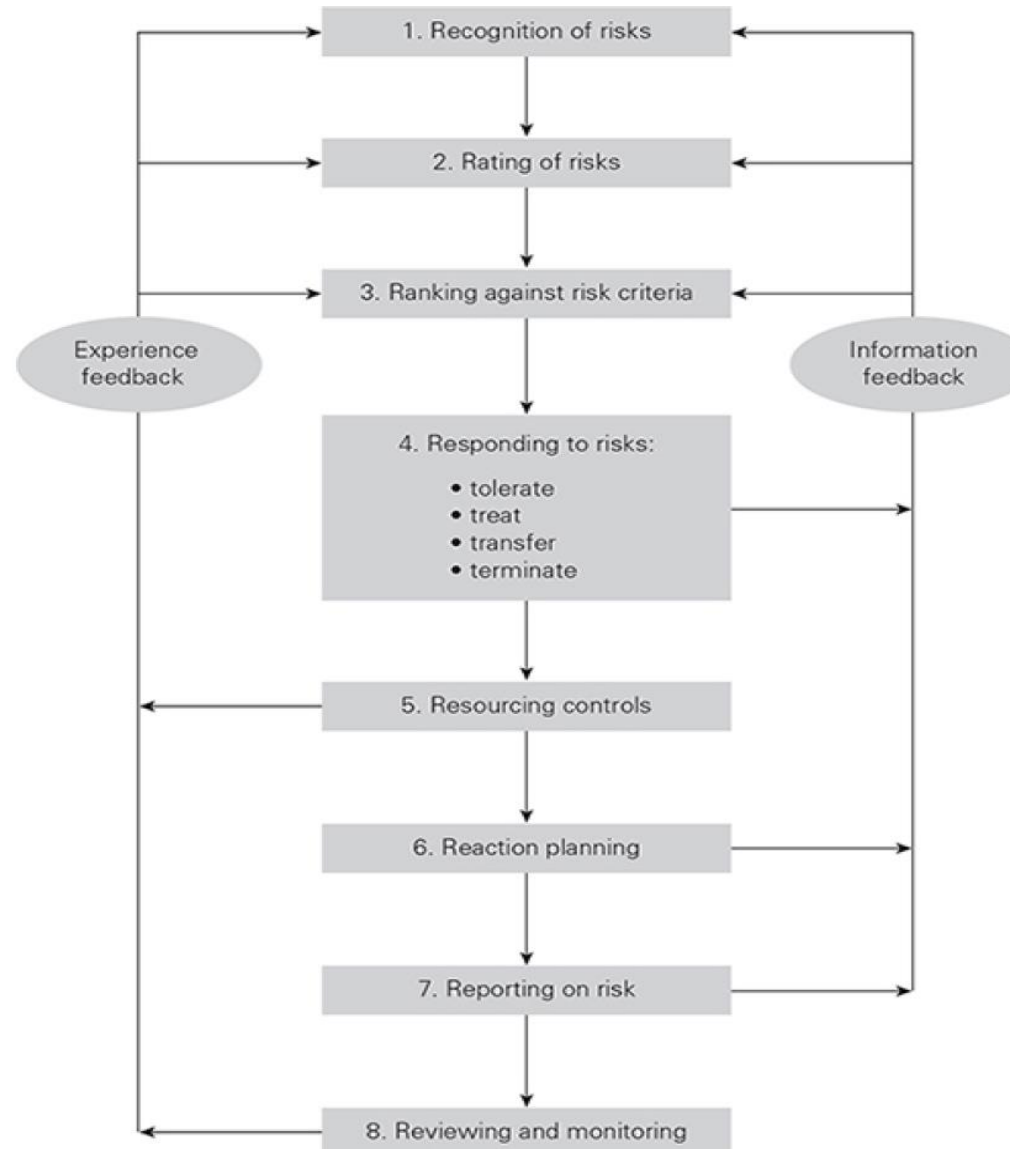
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- 5 Resourcing controls to ensure that adequate arrangements are made to introduce and sustain necessary control activities.
- 6 Reaction planning and/or event management. For hazard risks, this will include disaster recovery or business continuity planning.
- 7 Reporting and monitoring of risk performance, actions and events and communicating on risk issues, via the risk architecture of the organization.
- 8 Reviewing the risk management system, including internal audit procedures and arrangements for the review and updating of the risk architecture, strategy and protocols.

Risk management activities



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Risk management activities



- Risk management process is a set of activities, described as identifying, analysing, evaluating, treating, monitoring and reviewing risk.
- There has been much discussion about whether a single risk management process and/or diagram can be used to describe the management of **compliance risks, hazard risks, control risks and opportunity risks**.
- The figure and Table above are used to illustrate the stages in the **hazard risk management process only**.

Risk management activities



- Risk management tools and techniques should be used to achieve the following:
 - compliance management provides risk governance;
 - hazard management makes outcomes less negative;
 - control management reduces the range of possible outcomes;
 - opportunity management makes outcomes more positive.

Risk management activities



- It is important to note that not all activities and functions undertaken by managers should be claimed by the risk manager as being undertaken in the name of risk management. Not all activities in the organization will be driven by risk management, even if all decisions, processes, procedures and activities have risks embedded within them.

Principles of Project Risk Management



1. Define the Scope of Work for a Project

- A project's scope of work (SOW) should include:
 - Client information
 - Contractor information
 - Deliverables
 - Milestones

A new SOW should be written for each project. Every client and contract is going to be different

Principles of Project Risk Management



2. Identify Risks as Early as Possible

- Being able to see risk coming down the line requires keeping an open mind and thinking about the future of a project, not just its present state.
- Project areas to assess for risk management include:
 - Budget
 - Client requirements
 - Contracts
 - Documentation
 - People (for example, if a core team member gets sick)
 - Schedule
 - Technology
 - Weather and natural disasters

Principles of Project Risk Management



3. Identify Opportunities, Too

Preparing for opportunities is an important part of risk management.

organizations who wish to exploit and enhance their opportunities must be intentional:

- Objectives should be clearly defined.
- Get the appropriate stakeholders together and brainstorm opportunities.
- Capture and evaluate the opportunities. Which opportunities have the highest probability and impact scores?
- Identify risk/opportunity owners who will develop and execute response plans for the most significant opportunities.
- Develop and execute risk response plans.
- Monitor the opportunities.

Principles of Project Risk Management



4. Assign Importance to the Risk

Rate each risk. Using a scale of 1 to 5 is easiest, with 1 being the least impactful and 5 being the most impactful. First, answer the question, “How likely it is that the risk will occur?” and rate it on that scale. Then, rate the impact of the following: time, cost and quality. If it’s a positive risk, you can also rate it in terms of its benefits, as in, “How beneficial will this risk be if it occurs?”

Principles of Project Risk Management



5. Figure Out How to Respond to the Risk

Now that the root cause of the potential problem is defined, there are four basic ways to deal with it:

- Avoidance: Prevent the risk from occurring so that it doesn't affect the project.
- Mitigation: Take action to limit how much damage the risk can cause.
- Transference: Hire someone else to take on the risk.
- Acceptance: This is what will be chosen if the other three options aren't available or realistic.

Principles of Project Risk Management



6. Maintain a Risk Log

Use a spreadsheet to keep track of the expected risks. In addition to the risk assessment scales mentioned above, here are some fields to include:

- The date of when you add the entry and any other dates that will matter.
- Description of the risk
- Likelihood of the risk happening
- The person responsible for managing the risk, determined by who is most suited to that particular risk
- Proper response(s) to the risk
- High and low cost estimates for different risk responses
- Current status

Principles of Project Risk Management



7. Regularly Review Project Risks

Risk management isn't a one-time exercise; it has to be monitored and updated throughout the lifespan of a project.