The Mathis Group's

Messenger

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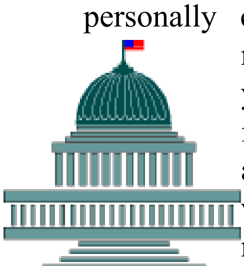
Risk Planning in an Uncertain Economy

Between the downturn of the economy and all we're hearing from the political realm, the future is a bit uncertain. Conflicting reports and different opinions are popping up everywhere. This leads to businesses being a little skittish when it comes to spending money. Some companies are attempting to spend money, only to find out later that the budget has been cut or frozen for an indefinite period of time. This is such a hard spot for leadership. They are hesitant to purchase the products or services that are desperately needed. Reducing, and maybe even eliminating, the risk in your projects will not only save you time, but also save the company money, which may free up funds for other areas.

Risk is anything that can go in a different direction than expected. Each risk has a cause and an effect. While there are some risks that you cannot personally control, such as changing political regulations, there are others for which you can plan. Making sure everyone involved with the project is qualified and has the proper tools and resources will save countless dollars and hours of rework.



When analyzing risk, there are known and unknown risks. Known risks can be identified, analyzed, and can planned for in the beginning. Unknown risks, on the other hand, cannot be identified or planned for up front. The more potential risk a project has, there is more of a need for careful planning, monitoring, and controlling. Establishing clear project goals, selecting an experienced project manager, frequent monitoring, and improving problem solving and communication skills will eliminate some risk right from the start.

Risk Management Planning

A risk management plan helps define those areas which could be potential risks. It also describes the responsibilities of each team member. This plan will make sure everyone knows what is excepted in regard to the probable risks. Determining whether to identify risks early in a project or late both have several considerations. If risks are identified early on, it's possible to not have enough information, they might not be based on reality or data, or they may be too shallow and distort the outcomes. On the other hand, if you wait to identify risks, the project plan is already drafted. At this point in time, risks might be serious and require extra time for changes, effecting the budget, tasks and deliverables of project.

Risk Identification

Everyone should be involved in identifying potential risks. There are several categories in which risks

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A good system of control helps prevent undesireable surprises; it provides for turning the 'lemon' into 'lemonade'.
Henri Fayoi
General and Industrial Management

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may fall. Technical risks involve technology being unreliable or too complex. Project management risks include poor planning of time and resources and an incomplete project plan. Organizational risks happen when cost, time, and scope objectives are inconsistent and if there is a lack of funding. Resources may conflict with other ongoing projects. External risks are ones in which you can't control. Legal, regulatory, or labor issues and the weather are such risks.

Once you have identified all the possible risks, you will need to assess each to determine its importance. This evaluation will become the guideline for developing the risk strategy.

Qualitative Risk Analysis

Qualitative risk analysis tries to determine the likelihood of a given risk happening. It prioritizes risk according to the potential impact to the project. Your personality will play a factor in what you do with this information. Determine your risk tolerance level. This is the willingness or unwillingness to accept risk. Are you a risk taker or a risk avoider?

Quantitative Risk Analysis

Quantitative risk analysis assigns a numerical value to each risk. Discuss with the project stakeholders and experts to establish the appropriate and acceptable amount of risk.

Risk Response Planning

After all risks have been identified and analyzed, it is now time to determine your response to each. Your risk response must be equal to the severity of the risk, cost effective, timely, realistic, agreed upon, and be managed by a responsible person. You have four responses from which to choose:

1. Change the project plan to eliminate the risk
2. Shift the consequences and responsibility to someone else
3. Take action early to reduce the impact of the risk
4. Make no change and deal with the risk as it comes

Risk Monitoring and Control

It is necessary to keep track of every risk identified and the plan associated with each. Simply recognizing what the risks are isn't enough. If you don't monitor the progress of the project and reveal risks before they happen, you aren't doing yourself any good. You want to be able to act instead of react.

Uncertainty may be scary, but it's not something from which to run. Being prepared will reduce the stress and time needed to correct the situation.