

# Plan Risk Management

By Hesham Mahmoud

**Risk.** Just this one word can make you either nervous or excited. One thing is for certain, the word risk evokes strong emotion. The truth is we face risks every day, some small, some large. If you are in the stock market, either investing personally or having a retirement plan, you are familiar with risks. If you have money and do not invest in the stock market, you are still taking a risk because your money could make more money in the stock market than in a CD, money market, or real estate.

In today's unpredictable economy, small and big businesses are experiencing great uncertainty of the future. For this reason, conducting business and managing projects always contains some kinds of risk or uncertain events, which have a great influence on the business's bottom line. A risk may have one or more causes and, if it occurs, it may have one or more impacts. As a project manager risk taking is part of our life. If we want to succeed, we must be able to accept and take calculated risks.

Risk is an event that may happen in the future. Events will happen during your project that either were uncertain if they would occur or that you did not foresee at all. In either scenario, these events will have an impact on the project in one or more ways: scope, schedule, cost, and quality. If one of your engineers leaves for another job or is laid off, that will obviously have an effect on your schedule. If a component that you have written into your specifications is no longer available, this could effect your scope, cost and quality. Project managers need to identify and address risks effectively to be successful in their job

When risk is applied to project management, six processes are used in project risk management, according to A Guide to the Project Management of Knowledge, PMBOK. These processes are utilized to take advantage of the positive events and try to minimize the negative events. The processes are:

## **Project management risk processes**

1. Plan risk management
2. Identify risks
3. Perform qualitative risk analysis
4. Perform quantitative risk analysis
5. Plan risk responses
6. Monitor and control risks

In this paper, I am concentrating on the first process and first step in project risk management, which is plan risk management, with five other papers covering the other processes.

You may be asking how can you plan for events that may or may not occur. That is why you need to plan your risk management, which will lead to a formal document, the risk management plan. When the project is first created or formulated, this is the time to start planning because this when risk has the highest potential.

## **Terms and conditions of sale**

Even prior to the first start date, the project is fraught with risk. An area of greatest risk lies within your terms and conditions of sale, T&C. By identifying the potential risks within the T&C, project managers can start their risk management plan. Most companies have their standard document of terms and conditions, which would be presented to the customer along with the main part of the contract. The

content of the T&C varies from company to company and industry to industry, but it generally describes the warranty, liability, payment terms, taxes, returns, cancellations, and delivery.

Carefully draw up your T&C, but if your customer offers their own, read and reread what your customer has proposed. If your customer submits to you their own T&C, look for any item that may change your scope, schedule, cost, and quality because a change in any of these elements could signify an increase in risk.

The areas of most concern within the T&C are warranty, liquidated and consequential damages. The warranty is a document guaranteeing the product from defects and or workmanship, usually for a set period of time. As a supplier, be knowledgeable if your warranty is inline with the industry standard. If you are selling computers with a 90-day warranty, and the warranty of Apple computers is one year, you are not competitive. Your customers will go elsewhere, so you will have to determine why there is this discrepancy.

Liquidated damages are when a breach is made in the contract, such as a job not being completed on time or missing some other milestone. The sum of the damages is called liquidated damages. If you elect to accept liquidated damages, be sure understand the consequences.

Consequential damages is another element of your T&C. These damages arise not from a direct result from your actions, but as a consequence.

Project managers are problem solvers. As a project manager, how many issues or problems do you solve in a day? Ten, twenty, or even more? I am sure that you have seen this problem-solving model or one that is similar.

### **Problem-solving model**

1. Identifying the problem
2. Generating solutions
3. Selecting one solution
4. Implementing solution
5. Monitoring and controlling

When dealing with risks, the risk-management model, formulated from the PMBOK, is similar. Project managers are searching for risks that may effect the objectives of the project: scope, schedule, cost, and quality.

### **Risk-management model**

1. Identification of risks
2. Determining the probability of events occurring
3. Prioritizing risks in order of impact and probability
4. Determining the numeric effect of the risks on the project
5. Formulating actions to reduce the probability and the amount of impact if they occur
6. Developing options to your plans
7. Monitoring and controlling risks

**We cannot eliminate all risks, but we can manage calculated risks.** The goal of any risk management plan is identifying, planning, minimizing and managing that risk within scope, schedule, cost and quality of your project, by proactively addressing it. Risk is inherent in project management,

but if we deal with it systematically, we can assess it and determine how to deal and control with that risk. By addressing these risks proactively and efficiently, project managers will have a greater chance of being successful project managers.

Now that you know how to plan for risk, we will talk in more detail in the following paper about the risk-management model and how to identify risks.

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