Project Management for
Development Organizations

Doing the Right Projects,
Doing the Projects Right

The Project Risks

Project Risk Definition

A basic dictionary definition of risk is “the possibility of potential harm that may arise from some present process or from some future event”. As such risk is also associated with the probability that the event may or may not occur.

Risks are also associated with the potential benefits or payoff a project may receive in light of potential risks. For example a project may embrace a particular approach that has a high risk of creating resistance from local interest groups but the payoff to the community is high. In this case the project faces a decision to use the approach and face the risks, or avoid the risk by using a different approach that may not have the same impact or a payoff.

Managing the Risk

The main purpose of risk management is to build an understanding of the potential problems that might occur on the project and how they might impede project success; and develop strategies to reduce the impact of potentially adverse events on the project. Risk management is an investment the project is willing to make to reduce the impact to the project. There are costs associated with risk management and these costs should not exceed the potential benefits.

Risk management deals with the processes to identify, analyze and respond to risk throughout the project life cycle, with the goal to ensure the project will be able to reach its objectives. Risk management also helps the project by determining the right scope, making realistic schedules and better cost estimates that take in account provisions to respond to risk events. Risk management also helps project stakeholders understand the true nature of the project; identify its weaknesses, threats, strengths and opportunities.

The main purpose of risk management is to build an understanding of the potential problems that might occur on the project and how they might impede project success; by developing strategies to reduce the impact of potentially adverse events on the project. Risk management is an investment the project is willing to make to reduce the impact to the project. There are costs associated with risk management and these costs should not exceed the potential benefits.

Project risk management is concerned with the analysis of the various risks and reducing their impact. The probability that a risk may occur varies as the project makes progress, a risk identified as low impact and low probability may change in a couple of months to high impact and high probability. The role of the project manager is to ensure there is a constant evaluation of the risk factors and update the response plan accordingly.

Risk management is a systematic process of identifying, analyzing, responding, monitoring and evaluating project risks. It involves a series of steps and techniques to help minimize the probability and the impact of adverse events and maximize the probability and results of positive events within the context of risk to the overall project objectives. Project risk management is most effective when it is done early in the life of the project and is a continuous responsibility throughout the project’s life cycle.

Risk Management includes the processes concerned with identifying, analyzing, and responding to risks. The level of risk in a project is defined as something that may happen and if it does, will have an adverse impact on the project. Risks management is the management of events that may or may not occur, and includes the preparation of plans to reduce the impact to the project. Because of this probabilistic and speculative nature of risk management, many project managers feel it's is not necessary and prefer to deal risks only when it occurs.

Risk identification deals with identifying all possible risks that may impact the project, it involves identifying potential project risks and documenting their characteristics. The project team members identify the potential risks using their own knowledge of the project, its environment, and similar projects done in the past. The project risk list is a project deliverable. The next step is the analysis of the project risks. Risk analysis assesses the importance of the identified risks and develops prioritized lists of these risks for further analysis or direct mitigation. The team assesses each identified risk for its probability of occurring and its impact on project objectives. Part of risk management includes the revision of risk analysis during the project's lifecycle. There are two types of risk analysis:

- Quantitative risk analysis, a way of numerically estimating the probability that a project will meet its cost and time objectives.
- Qualitative risk analysis, based on a simultaneous evaluation of the impact of all identified and quantified risks.

Risk response planning focuses on the high risk items evaluated in the risk analysis step. It identifies and assigns staff to take responsibility for each risk response. The project manager and the team identify which strategy is best for each risk, and then design specific actions to implement that strategy. Risk monitoring and control keeps track of the identified risks, residual risks, and new risks. It also ensures the execution of risk response plans, and evaluates their effectiveness. Risk monitoring and control continues for the life of the project.

These series of articles focuses on concepts and practices related to development projects. It is our hope that the ideas and methodologies presented here prove useful to anyone who is engaged in managing projects in the broader development community, and helps bring sustainable benefits to the communities and beneficiaries who need it the most.

The Millennium Development Goals aim by 2015 to reverse the grinding poverty, hunger and disease affecting billions of people.

PM4DEV is committed to provide resources and develop knowledge and expertise to support development organizations in their efforts to achieve this ambitious goal.

PM4DEV

Project Management For Development Organizations

www.pm4dev.com
info@pm4dev.com