MBT Step 7 Risk Management

Developing a Risk Management Plan

There will always be risks associated with projects resulting from the architecture analysis or Modernization Blueprint. The purpose of risk management is to ensure levels of risk and uncertainty are properly managed so that the project is successfully completed. It enables those involved to identify possible risks, the manner in which they can be contained and the likely cost of countermeasures.

What is a Risk Management Plan?

A Risk Management Plan summarizes the proposed risk management approach for the project and is usually included as a section in the business plan. The Risk Management Plan is dependant upon the identification of the projects risks, their criticality, status, strategy and status. The risk Management Plan describes:

- the process which will be used to identify, analyze and manage risks both initially and throughout the life of the project;
- how often risks will be reviewed, the process for review and who will be involved;
- who will be responsible for which aspects of risk management;
- how Risk Status will be reported and to whom; and
- the initial snapshot of the major risks, current grading, planned strategies for reducing occurrence and Severity of each risk (mitigation strategies) and who will be responsible for implementing them

What is a Risk Management Table?

The Risk Management Table is derived from the Exhibit 300 Capital Planning guidance to ensure the project will conform with the required information to generate quality capital planning documents. The Risk Management Table records the details of all the risks identified at the beginning and during the life of the project, their grading in terms of occurrence of occurring and Severity of impact on the project, initial plans for mitigating each high level risk and subsequent results.

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It usually includes:

- a unique identifier for each risk;
- a description of each risk and how it will affect the project;

- an assessment of the occurrence it will occur and the possible Severity/impact if it does occur (low, medium, high);
- a grading of each risk according to a risk assessment table
- who is responsible for managing the risk; and
- an outline of proposed mitigation actions (preventative and contingency.

This Register should be kept throughout the project, and will change regularly as existing risks are re-graded in the light of the effectiveness of the mitigation strategy and new risks are identified. In smaller projects the *Risk Management Table* is often used as the Risk Management Plan.

Why would you develop a Risk Management Plan and Risk Management Table?

A Risk Management Plan and Risk Management Table are developed to:

- provide a useful tool for managing and reducing the risks identified before and during the project;
- document risk mitigation strategies being pursued in response to the identified risks and their grading in terms of occurrence and Severity;
- provide the Executive Sponsor, Steering Committee/senior management with a documented framework from which risk status can be reported upon;
- ensure the communication of risk management issues to key stakeholders;
- provide a mechanism for seeking and acting on feedback to encourage the involvement of the key stakeholders; and
- identify the mitigation actions required for implementation.

When would you develop a Risk Management Plan?

Initial risks must be identified and graded according to occurrence and Severity very early in the project. The risks will need to be communicated to the CMIT and the executive sponsors of the implementation. Once the project is approved the Risk Management Plan and *Risk Management Table* should be fully developed. In the case of smaller projects the *Risk Management Table* may serve both purposes.

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What you need before you start:

- Knowledge and understanding of the project. (Blueprint Recommendations)
- Knowledge and understanding of the Key Stakeholders. (From MBT Step 2)

- Knowledge and understanding of appropriate types of risk management activities, or where to obtain them.

- Other MBT supporting documentation from IRB, and the Blueprint Development team (CMBT)

Optional:

- Departmental Project Management Guidelines. (Note: This document has cross referenced the DOI Capital Planning Guide and the E-CPIC Exhibit 300 formats to ensure that the minimum requirements will be satisfied.)

How do you develop a Risk Management Plan?

The following is one way to develop your plan. It consists of a series of steps that become iterative throughout the life of your project. Firstly:

Step 1: Identify the risks

Before risks can be properly managed, they need to be identified. One useful way of doing this is defining categories under which risks might be identified. For example, categories might include Corporate Risks, Business Risks, Project Risks and System Risks. These can be broken down even further into categories such as environmental, economic, human, etc. Another way is to categorize in terms of risks external to the project and those that are internal.

For a medium to large project, start by conducting a number of meetings or brainstorming sessions involving (as a minimum) the Project Manager, Project Team members, Steering Committee members, external key stakeholders. It is often advisable to use an outside facilitator for this. Preparation may include an environmental scan, seeking views of key stakeholders etc. One of the most difficult things is ensuring that all major risks are identified. For a small project, the Project Manager may develop the *Risk Management Table* perhaps with input from the Executive Sponsor/Senior Manager and colleagues, or a small group of key stakeholders.

The results of this exercise should be documented in a *Risk Management Table* for the project. For larger projects, if an outside facilitator is used, it would be expected that they would develop the initial documentation.

Step 2: Analyze and evaluate the Risks top

Once you have identified your risks you should analyze them by determining how they might affect the success of your project.

Risks can result in four types of consequences:

- benefits are delayed or reduced;
- timeframes are extended;
- outlays are advanced or increased; and/or
- output quality (fitness for purpose) is reduced.

Risks should be analyzed and evaluated in terms of occurrence of occurring and Severity of impact if they do occur. Firstly, assess the occurrence of the risk occurring and give this a rating of Low (L), Medium (M) or High (H) occurrence. Once you have rated the occurrence, assess the Severity of the impact of the risk if it did occur and rate at Low (L), Medium (M) or High (H) Severity.

Using your ratings for occurrence and Severity you can then determine a current grading for each risk that in turn provides a measure of the project risk exposure at the time of the evaluation.

Table 1 provides a standard method for calculating a grading for each risk based upon the combination of the occurrence and Severity ratings.

Occurrence	**Severity**			
		low	medium	high
	low	E	D	C
	medium	D	C	B
	high	C	B	A

Table 1: Risk matrix for grading risks

So what this means in practice is:

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Identifier	**Description of Risk**	**Occurrence**	**Severity**	**Grade**	**Status**
1.1	Inadequate funding to complete the project	medium	medium	C	INCREASING
1.2	Lack of technical skills in Client Business Unit	high	high	A	NEW

Key:

Change to Grade since last assessment			
NEW	New risk	↓	Grading decreased

-	No change to Grade	↑	Grading increased

In the case of larger or more complex projects, the matrix should be expanded to ensure an A Grading is automatically assigned to any risks defined as extremely high Severity.

Occurrence	**Severity**				
		low	medium	high	EXTREME
	low	E	D	C	A
	medium	D	C	B	A
	high	C	B	A	A

Depending upon the size and nature of the project, some choose to use numerical scales for this analysis and evaluation.

The resulting grades of risk help the project team to focus on treating the most important risks, once evaluated and prioritized, and to mitigate them before the project progresses much further into the MANAGE Phase.

Step 3: How will you manage or 'treat' the Risks?

Using the Grading Table in Step 3, for your entire Grade A and B risks and those rated Extreme it is really important to have identified mitigation strategies very early in your project. **Risk mitigation strategies reduce the chance that a risk will be realized and/or reduce the Severity of a risk if it is realized.** Grade C Risks should be continually monitored and have planned mitigation strategies ready to be implemented if appropriate. These plans need to be recorded on your *Risk Management Table*.

There are three broad types of risk mitigation strategies:

- **Avoid** the specific threat, usually by eliminating the cause. (e.g.; conduct a study or develop a prototype)
- **Mitigate** the specific threat by reducing the expected monetary or schedule impact of the risk, or by reducing the probability of its occurrence.
- **Manage** (accept) the consequences of the risk.

Once a risk has occurred, recovery actions to allow you to move on should be built into the WBS for your project. In other words, what should you do when?

For each action in the *Risk Management Table*, it is necessary to specify:

- Who will be responsible for implementing each action?

- When the action must be implemented?
- What are the costs associated with each action (for larger projects in particular)?

Your *Risk Management Table* may now look something like this:

Id	Description of Risk	L	S	G	Change	Date	Action	Who	Cost	WBS
1.1	Inadequate funding to complete the project	M	M	C	↑		Re-scope project focusing on time and resourcing	PM	$$$	
1.2	Lack of technical skills in Client Business Unit	H	H	A	NEW		Develop training plan	Consultant	$$$	

This example is in brief and more detail would be added as required. For example, in larger projects separate documentation might be developed for each major risk providing much more detail regarding mitigation strategies and costings.

Step 4: Monitor and review risks

The *Risk Management Table* should be visited fortnightly with re-evaluation of the risks occurring on a monthly basis. If your prevention strategies are being effective, some of your Grade A and B Risks should be able to be downgraded fairly soon into the project. Risk Status should be reported to the Steering Committee or Executive Sponsor/Senior Manager on an agreed regular basis and form part of the Project Status reporting processes.

Remember - Risk Management is an iterative process that should be built into the management processes for your project. It is closely linked with your Issues Management processes, as untreated issues may become significant risks.

Also remember: Communicate and Consult

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Even though you may have done this really well at the beginning and involved your key stakeholders in the identification, analysis and evaluation of risks, it is important to remember to keep the communication going. The communication strategy for your project should build this into the activities.

Who is responsible?

Many people involved in a project will have some responsibility for project risk management, including the project team members, Steering Committee, Executive

Sponsor, potential business owners and working groups. It is important that they know what they are watching out for, and reporting potential risks is a significant part of their role.

The Project Manager is responsible for monitoring and managing all aspects of the risk management process, such as:

- the development of the Risk Management Plan and n Risk Management Plan
- the continual monitoring of the project to identify any new or changing risks;
- continual monitoring of the effectiveness of the risk management strategies; and
- regular reports to the Executive Sponsor and Steering Committee.

In large projects, the Project Manager may choose to assign risk management activities to a separate risk manager, but they should still retain responsibility. It should be noted that large projects are a risk in themselves, and the need for the Project Manager to reassign this integral aspect of project management may be an indication that the project should be re-scoped, or divided into several sub-projects overseen by a Project Director.

Who has ultimate accountability?

While the Project Manager is responsible for the management of risks, the Executive Sponsor/Senior Manager has ultimate responsibility to ensure that an effective Risk Management Plan for the project is in place.

Who approves the Risk Management Plan?

Generally, the Risk Management Plan would be approved or endorsed by the Steering Committee/Executive Sponsor or Senior Manager, depending upon the size of the project.

Once the Risk Management Plan has been approved, it is important to:

- add the actions into the Project Plan with the appropriately assigned resource(s); and
- add the costs for the actions into the Project Budget.

Reference:
http://www.projectmanagement.tas.gov.au/f_sheets/riskmanplan_fsv1.0.htm#table1