

RISK MANAGEMENT PLANNING – HOW MUCH IS GOOD ENOUGH?

PRELIMINARY VERSION

Karel de Bakker

deB Project & Risk

karel@debee.nl

Wendy M. Stewart & Peter W. Sheremeta

S & S Project Management

sspm@canada.com

Introduction

The concept of Risk Management (RM) Planning was introduced in the 2000 Edition of the PMBOK® Guide. The main objective of the RM Planning process is to decide how to approach and plan the RM activities for a project (PMBOK® Guide, 2000 Edition, 127). It is therefore a strategic activity, covering the whole of the RM process and its relation with the project as well as with the project environment. It is decidedly not an operational process, nor does it concern itself with the detail of what are the actual risks, or how to respond to them.

The introduction of the RM Planning process is extremely important for the positioning of risk management within the overall project management process. The introduction of RM Planning clearly shows that RM is an integral part of the project. It highlights the fact that RM activities need to be planned, budgeted and have resources allocated to them. Risk Management can no longer be viewed as something that distracts you from the important task of being a Project Manager; Risk Management *is* one of the core tasks of every Project Manager!

Introducing the RM Planning process puts extra pressure on the output of the RM function. Now that it has become evident that RM activities actually cost money, require resources and influence project planning, people want to know what added-value this process brings. Unfortunately, not unlike project management itself, calculating the value of risk management on a project is difficult.

Nevertheless, the RM Planning process establishes the framework and sets the boundaries within which an effective RM process takes place. The characteristics of an effective RM Plan are that it is appropriate, achievable and affordable. These characteristics underlie the entire RM *process*, and are not confined to the effectiveness of *risk responses*

To begin development of an effective RM process that is both complementary and supportive of the project, the first step within RM Planning is to define the scope of the planning effort – i.e., Risk Management Planning Scope.

Risk Management Planning Scope

Risk Management Planning Scope determines how much RM Planning should be conducted for a specific project. Defining the extent of this effort involves analyzing several key elements – some elements are generic to the organization while others are specific to the project. The output from the analysis sets the boundaries for the conduct of RM within a project and provides justification for the required RM infrastructure.

Elements of RM Planning Scope

To provide substance to the definition of RM Planning Scope, we group various risk sources into meaningful categories. These categories must be sufficiently inclusive as to provide comprehensive

coverage of the risk environment while not so detailed so as to become unmanageable or misinterpreted as actual risks. Each element is described in the following paragraphs. The Project Work Breakdown Structure and Project Framework categories are project-specific while the Stakeholder and Environment categories are more generic.

Generic: Stakeholders

Stakeholder risk tolerances influence the scope of RM Planning. Risk tolerances depend on the importance of the project to the stakeholder and are a function of stakeholder objectives and expectations. Four major groups of stakeholders should be considered – the client, senior management, the investor and society. Each group has a different tolerance level that is expressed either in policy statements or in actions that are based on thresholds such as profit and performance. More RM Planning will be required when project stakeholders have low risk tolerances while, conversely, a high risk tolerance can significantly reduce the overall risk planning effort.

As an example, senior management's requirement to meet or exceed profit predictions will result in more RM planning than if senior management is willing to accept some reduction in the profit contribution. Also, society's risk tolerance to projects such as those with potentially disastrous environmental effects may be very high and consequently require considerable RM planning effort.

Generic: Project Environment

The project environment comprises many variables including the market, cultural diversity, organization, and global risks. The environment within which the project will be implemented often dictates how much RM Planning must be conducted.

Cultural diversity leads to differences in how individuals perform and cooperate with each other. This diversity logically extends to organizations. Organizations, depending on their culture, view the world with differing perspectives and approach RM Planning differently. A European organization may, when in partnership with a South American organization, find it necessary to implement a different level of RM Planning to accommodate these differences.

Corporate policies are a reflection of the organization's culture. Policies are based on the organization's perception/analysis of market conditions as well as its own financial health, contractual obligations, experience/knowledge and skills. RM policies may already exist that define the amount of RM Planning to be done, irrespective of the project requirement. Conversely, there may be an existing approach to RM that needs to be tailored, depending on further analysis, to a specific project. Some corporate cultures make it easier to implement RM Planning than others, depending on their risk awareness and risk maturity.

Consideration of global risks such as political, socio-economic, environmental and legal requires attention. The existence of any of these risks will affect the scope of RM Planning. For example, more RM Planning will be required if the project is to be implemented in an unstable political environment or if there are pending changes within the legal system (i.e., regulations, tariffs).

Specific: Project Work Breakdown Structure (PWBS)

Analysis of the PWBS helps define the RM Planning Scope. The degree of segmentation within the PWBS and the type of work to be done provides an indication of project complexity and manageability. A very complex PWBS suggests a requirement for more RM Planning than a simple PWBS.

Project complexity is a function of the technology, schedule and resource intensity parameters. All of these factors should be assessed. A fast-track project schedule with little room for flexibility increases the scope of RM Planning, as does a project with scarce resources. Similarly, a project that will implement new or complex technology increases the amount of RM Planning.

The manageability of the project depends on the competence of the resources in terms of knowledge and experience, the availability of resources and the allocated funding. Resource and/or funding shortages increase the RM Planning scope while appropriate funding with sufficient, qualified resources reduces the amount of required RM Planning.

Specific: Project Framework

The project framework within which the project will be implemented will affect the scope of RM Planning. Project objectives, processes, assumptions and constraints constitute the project framework.

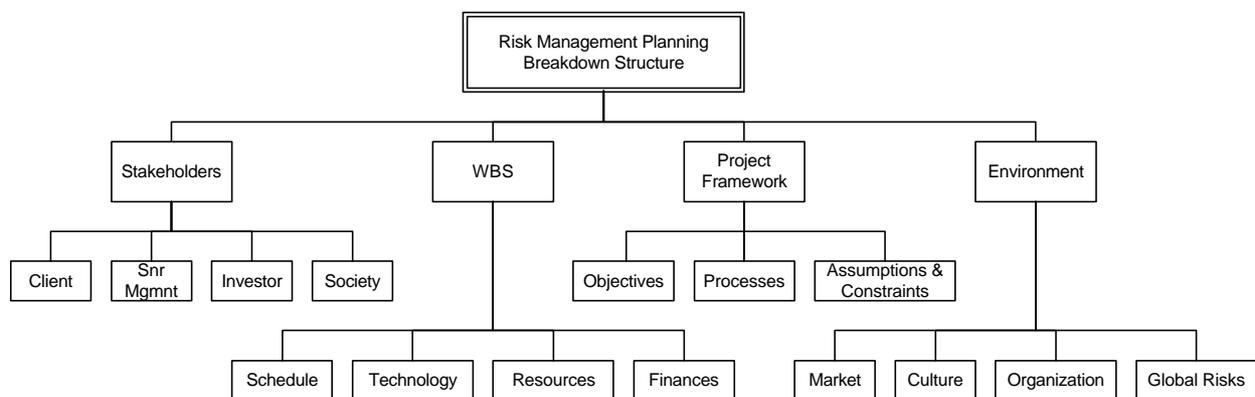
Clearly defined project objectives will reduce the RM Planning Scope. The existence of specific and understood project processes will also contribute to a reduction in RM Planning scope. Uncertainty increases proportionately with the number and significance of the assumptions made about the project, which in turn increases the scope of RM Planning. Analysis of the constraints within which the project will be implemented will also affect the amount of RM Planning – the more constrained the project, the higher the amount of RM Planning necessary to achieve a certain risk tolerance level.

Risk Management Planning Breakdown Structure

The Risk Management Planning Breakdown Structure (RMP-BS) is a planning construct designed to give the RM planner a framework from which to develop the RM Plan. In its simplest form, it is a visual guide to the definition of Risk Planning Scope. The RMP-BS also serves as a stepping-stone for development of the Risk Response Plan – activities resulting from analysis of the RMP-BS will be captured as responses to risks identified in the Risk Response Plan

The elements of RM Planning Scope were defined previously in this paper. It is now time to put them together in a meaningful form that can facilitate the planning process. Using the familiar concept of a Work Breakdown Structure, and applying it in the context of project risk, led to the high-level diagram in Figure 1 below.

Figure 1 – The Risk Management Planning Breakdown Structure



Although depicted to a summary level of detail, the actual RMP-BS for a project can be extended to greater depth. The factors influencing this effort are, among others, time, project complexity, and practitioner experience. The depth to which the RMP-BS is developed is also significant since the whole purpose of the RMP-BS is to drive the planning process and not do Risk Identification.

Planning Process

The extent to which the planning analysis is conducted is shaped by criteria that are unique to each Level 2 element of the RMP-BS. In tabular form, this can be shown as:

RMP-BS ELEMENT	CRITERIA (DEGREE OF ...)
Stakeholders	<ul style="list-style-type: none">• Risk Tolerance
Project WBS	<ul style="list-style-type: none">• Technical Complexity• Availability
Project Framework	<ul style="list-style-type: none">• Uncertainty• Definition
Environment	<ul style="list-style-type: none">• Dependence• Support

The criteria, or the degree to which they are applied, are not meant to be all-inclusive and could be supplemented with others based on the unique aspects of each project. However, the criteria that are identified above are sufficiently generic in nature as to be applicable in almost all cases and therefore form the basis of a “first pass” in defining the extent or depth of risk planning. Essentially this means that if the Risk Tolerance for a client is very low, then considerable more planning is required to provide that client with a degree of confidence in the success of the project. Similarly, if the Technical Complexity on a project is low (or resource Availability high), then a lesser degree of risk planning can be acceptable while still ensuring that the RM Plan is appropriate for the needs of the project.

Overlaying this scoping process, and adding to its complexity, are the global variables of personal experience, corporate risk maturity including risk policies, corporate culture, and available time. These factors underscore the interdependence of the variables involved and highlight the very human as opposed to mechanical aspects of the Risk Planning process.

Making The RM Plan Work

Determining the appropriate scope and depth of the RM Plan has been the prime focus of this paper. However, this paper would not be complete if it did not identify some of the supporting actions that must also be done correctly if the Plan itself is to be at all successful.

Costing the Plan

The achievability of any plan is constrained by its affordability. And although there are many elements that determine the achievability of the RM Plan, in the final analysis, it is the costing of these elements that establishes senior management’s affordability benchmark.

Getting the costing of the RM process correct is essential for two reasons. When combined with the costs from the Risk Response Plan, project risk can be quantified in terms meaningful to decision-makers. It is the combined total of risk response costs and risk planning costs that experienced senior management will use as the basis to formulate a business decision to either proceed with or cancel the project.

Secondly, accurate costing of the RM Plan should lead to an accurate risk planning budget, which, if approved, provides the necessary funding to develop and maintain the RM process throughout the project life cycle. If improperly or inaccurately costed, the RM Plan will be ineffective in developing the structure necessary to adequately manage project risk, thereby consigning the entire project to a higher risk state.

Selling the Plan

Good RM Plans are those that make it into implementation; the best ones actually make it to project completion! But no plan will see the light of day unless Senior Management can be convinced that their investment is sound and in some way contributes to business objectives. And that requires “selling” the RM Plan!

As organizational risk maturity grows, so will the organization's judgment of the cost-benefit of RM planning. However, that knowledge is small comfort to the project that is working with inexperienced staff and detached management. Here are some suggestions to bolster the chances of success:

- a. make sure the project champion is well briefed on the risk sources, the proposed risk methodology and the forecast process;
- b. relate value of RM Plan to business objectives;
- c. ensure RM planning process looks at opportunities as well as risks. With skill (and perhaps some luck), one good opportunity arising out of the RM process could pay for the entire RM function;
- d. emphasize the three "a's" of appropriate, achievable and affordable; and
- e. leverage as much organizational history as you can to support your approach (expensive past failures make wonderful examples, providing none of the current stakeholders were personally involved).

Synchronizing the Plan

A RM Plan, by itself, lacks context and purpose. It is essential that the RM Plan not only be developed in concert with the Project Plan but that it be maintained in synchronization with the Project Plan throughout the project life cycle.

Why is this important and how should it be done?

Essentially, it is a way of ensuring that both plans are mutually supportive; it is a sanity-check that the RM Plan remains relevant and appropriate for the project it is meant to support. Conversely, the Project Plan must remain cognizant of the RM process and its cost to the project in terms of resource commitment and financial expenditure.

Lastly, how to do all this? It is as easy as scheduling Risk Reviews into the Master Project Schedule and looking not only at the Risk Response Plan but assessing the relevance of, the applicability of, and the ability to implement the RM Plan.

Conclusion

The RM Planning process was introduced in the 2000 Edition of the PMBOK® Guide. This paper has endeavoured to address the question of "How Much Risk Planning is Good Enough?" by introducing an approach based on the concept of a Risk Management Planning Breakdown Structure.

But how much planning is enough? Those reading this paper in the hopes of finding an easy answer will be sadly disappointed. There is no magic formula, no silver bullet, that can distill the hard work of RM Planning into a "fill-in-the-blanks" template. RM Planning cannot be trivialized in that way. For others who have "been there, done that", and appreciate the complexities and subtleties involved, we can only hope that this paper will have sparked some creative thinking that may make the process easier to manage and execute. We continue the journey.

References

A Guide to the Project Management Body of Knowledge (PMBOK® Guide), 2000 Edition, Newton Square, Pennsylvania, USA: Project Management Institute, Inc.