



The Art of Risk Management: A Practical Guide for Business Success





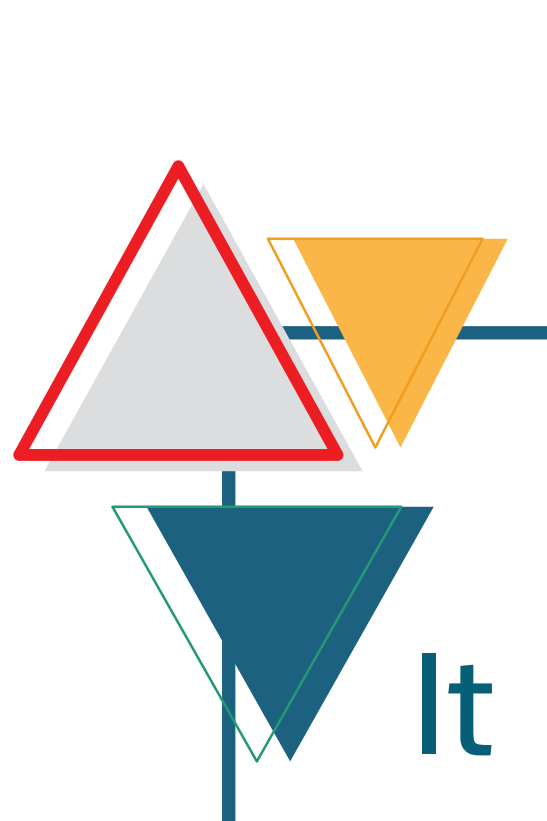
Every business faces risks, whether it is a small start-up or a large corporation.

Risks can be internal or external, predictable or unpredictable, controllable or uncontrollable.

Risks can also have positive or negative impacts on the business objectives, depending on how they are managed.

Risk management is the process of identifying, assessing, and responding to the risks that affect a business.



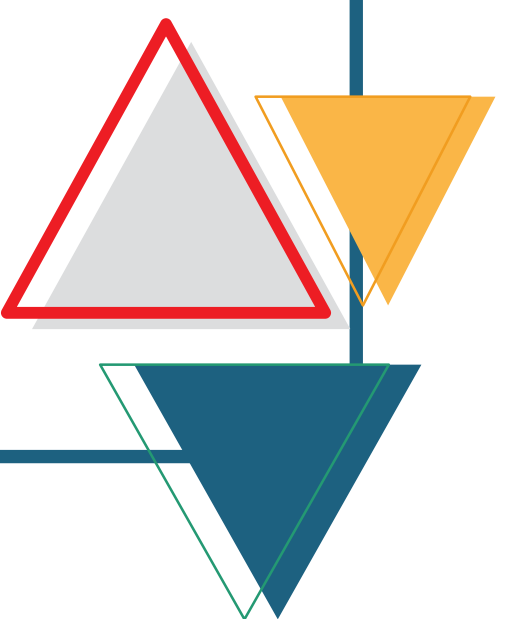


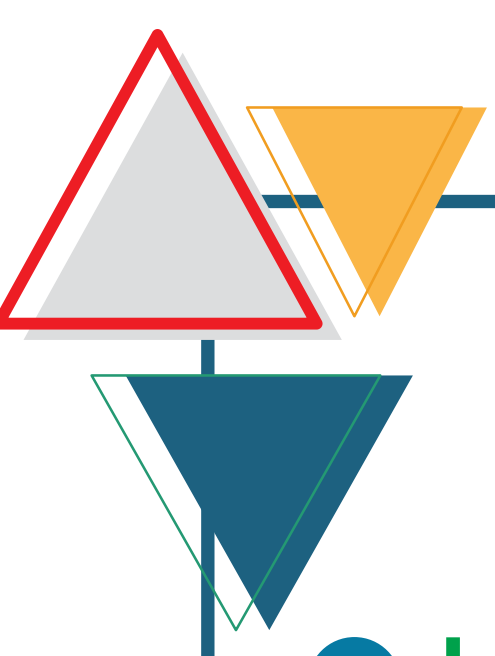
It is not about eliminating risks, but rather about making informed decisions and taking appropriate actions to reduce the negative effects and enhance the positive ones.

This book is a practical guide for risk management in the real business world. It will help you understand the concepts and principles of risk management, and apply them to your own business context.

You will learn how to:

- Define the objectives of risk management and align them with your business goals
- Use project envisioning practices to identify and prioritize the key risks in your business
- Follow the risk management lifecycle to plan, monitor, and control the risks throughout your project.



- 
- Use tools and practices such as risk register, risk matrix, risk analysis, risk response strategies, and risk reporting to manage risks effectively
 - Implement risk response strategies such as avoidance, mitigation, transfer, acceptance, and exploitation to deal with different types of risks
 - Learn from real-life examples and case studies of how other businesses have managed their risks successfully



This Guide is suitable for anyone who wants to learn more about risk management and how to apply it in their own business.

Whether you are a business owner, a manager, a project leader, or a team member, This book will provide you with valuable insights and practical tips on how to manage risks in a dynamic and uncertain environment.

Are You Ready To Dive In?

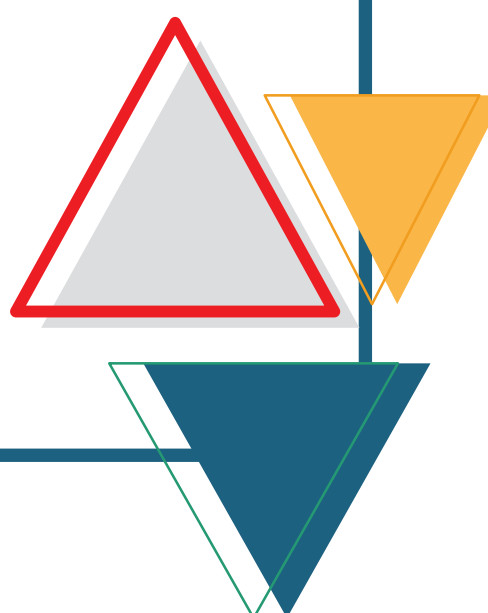


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Risk Defined

Risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on one or more objectives.

R I S K

Objectives of Risk Management

Risk management is not stand-alone discipline but requires integration with existing business processes such as business planning and Internal Audit



Key Objectives Risk Management Procedure

1

Anticipate and manage change
Improve decision making

2

Proactively implement typically lower-cost
prevention actions instead of higher cost reaction to
issues

3

Increase the chances to realize opportunities
for the benefit of the business

4

Generate broad awarenesses of uncertainty
of outcomes

5

Act upon the transformation taking place in its
business environment and requirements

6

Support organizational agility and resilience

Traditional Risk Management Pros and Cons

PROS

Risks identified before major investment

Early analysis can help with a go/ no decision

Contingency planning that avoids waste

Risks exposed to the team at large

Lessens chance of mid-project surprises

CONS

Usually done at the start but not throughout a project

May be performed on projects where there is no value add

Often done by a small group – not the entire team

No correlation to project specific processes to identify and minimize risk

Often done without examination of specific requirements



How is Agile different?

Traditional planning does risk management upfront. Whereas Agile looks for risk throughout the lifecycle.



How Does Agile Address Risk?



Individual and Interactions over process and tools:

Software development is a complex task that takes expertise and judgement. Members of a team must work closely together to solve the problem in front of them.

There is greater collaboration in agile teams over traditional teams, this in itself reduces risk. If your teams are working well together, there should be plenty of talking and workshops, which means that it is likely that most (if not all) risks will be identified.

Using collaboration to reduce risk can be illustrated by what happens during a good iteration planning meeting.

Working Software over Comprehensive Documentation

Producing working software on a continuous basis at the end of each iteration already reduces product and project risk by allowing the business to give feedback regularly.

Customer Collaboration over Contract Negotiation

In agile, we recognize that things will change as we learn more about what we are building, and we adapt to new knowledge and information we discover. In order to be effective, contracts in agile delivery need to be written to support this adaptation. This means we must all work together to continually manage risk and reduce it as soon as it gets identified.

The continuous involvement of actual customers — not just customer proxies, like the PO— builds a better product that is fit for its purpose. As they are available, involving customers in all ceremonies (including daily standups) can reduce more risk.

Responding to Change over Following a Plan

In agile we are planning and replanning on a very regular basis as we enter sprints, refine our backlog, and talk daily at standups.

This means that risk is being identified, analyzed, and mitigated (or at least planned to be mitigated) on a daily basis.



Agile Principles Address Risk

Transparency

Expose everything we are doing so we can see risks early

Collaborative planning

Harness the knowledge of the entire team and see more risks

Customer involvement

Mitigate customer risk by involving them throughout the lifecycle

Project Envisioning Practices

Envisioning the product with the customer

- The team and customer are synchronized on the need
- Less risk of delivering the wrong product

Quantifying the value with the customer

- Less risk of the team not supporting the project

Project Planning Practices

Estimation based on history

- Risk of estimate inaccuracy reduced since constants are involved in estimation

Work reviewed at the feature level for more detailed risk evaluation:

- Less chance of missing a risk since features are examined separately for technical risk

Project Tracking Risk Practice

Don't Manage Based on % of Plan Complete

- Percentages are misleading
- There is a risk that 1% takes as long as 99



Can I use Traditional Risk Management on My Agile Project?



YES PLEASE DO!

**The Truth— Most projects Mix
Traditional and Agile Methods**

Where most projects live

**Traditional
Project
Methods**

**Agile
Project
Methods**

Work Breakdown Structure

Team Customer Interview

Formal requirements

Agile estimating

Detailed task estimates

Burn down charts

Customer Signature

Daily standup meeting

One delivery

Iterative delivery

Microsoft Project Plan

Daily customer Interaction

Formal risk Management

Iteration retrospective

But – Make the Call on Each Project

Do Traditional Risk Management when Project:

Has technology never used by the team

Is expensive

Has many touch points

Longer than a few weeks

Is required to be compliant

Probably Skip, or do lightly, when Project:

Is a simple release on existing platform

Only runs a few days

Schedule is tight and extended risk planning could jeopardize delivery

We have a lot of experience with this type of project

We can leverage an existing risk plan

Types Of Risks



Risk Management Lifecycle

Identify Risks



Identifying individual project risks as well as sources of overall project risk, and documenting their characteristics

Analyze Risks



Prioritizing individual project risks for further analysis or action by assessing their probability of occurrence and impact as well as other characteristics

Plan Risk Response



Developing options, selecting strategies, and agreeing on actions to address overall project risk exposure, as well as treat individual project risks

Monitor & Control



Monitoring the implementation of agreed-upon risk response plans, tracking identified risks, identifying and analyzing new risks, and evaluating risk process effectiveness throughout the project

Stakeholder Engagement



Stakeholders Risk Appetite

Risk appetite is a classification of how much risk are specific stakeholders, or the overall organization, willing to accept while pursuing project objectives

Risk Tolerance

Risk tolerance is the degree of risk that an investor is willing to endure given the volatility in the value of an investment.

Tools & Practices

Brainstorming



The goal of brainstorming is to obtain a comprehensive list of individual project risks and sources of overall project risk. The project team usually performs brainstorming, often with a multidisciplinary set of experts who are not part of the team. Ideas are generated under the guidance of a facilitator, either in a free-form brainstorming session or one that uses more structured techniques. Categories of risk, such as in a risk breakdown structure, can be used as a framework.

Tools & Practices



Interviews

Individual project risks and sources of overall project risk can be identified by interviewing experienced project participants, stakeholders, and subject matter experts.

Checklists

A checklist is a list of items, actions, or points to be considered. It is often used as a reminder. Risk checklists are developed based on historical information and knowledge that has been accumulated from similar projects and from other sources of information.



Tools & Practices

Technical performance analysis

Technical performance analysis compares technical accomplishments during project execution to the schedule of technical achievement. It requires the definition of objective, quantifiable measures of technical performance, which can be used to compare actual results against targets. Such technical performance measures may include weight, transaction times, number of delivered defects, storage capacity, etc. Deviation can indicate the potential impact of threats or opportunities.



Reserve analysis

Throughout the execution of the project, some individual project risks may occur with positive or negative impacts on a budget or schedule contingency reserves. Reserve analysis compares the amount of the contingency reserves remaining to the amount of risk remaining at any time in the project in order to determine if the remaining reserve is adequate. This may be communicated using various graphical representations, including a burn-down chart.

Risk Response Plan

Responding to Risk



Avoid

Risk avoidance is when the project team acts eliminate the threat or protect the project from its impact.



Mitigate

In risk mitigation, action is taken to reduce the probability of occurrence and/or impact of a threat.



Transfer

Transfer involves shifting ownership of a threat to a third party to manage the risk.
Risk transfer often involves payment of a risk premium.



Accept

Risk acceptance acknowledges the existence of a threat, but no proactive action is taken.

**Negative
Risk**



Risk Response Plan

Responding to Risk



Exploit

The exploit strategy may be selected for high-priority opportunities where the organization wants to ensure that the opportunity is realized.



Enhance

The enhance strategy is used to increase the probability and/or impact of an opportunity.



Share

Sharing involves transferring ownership of an opportunity to a third party.



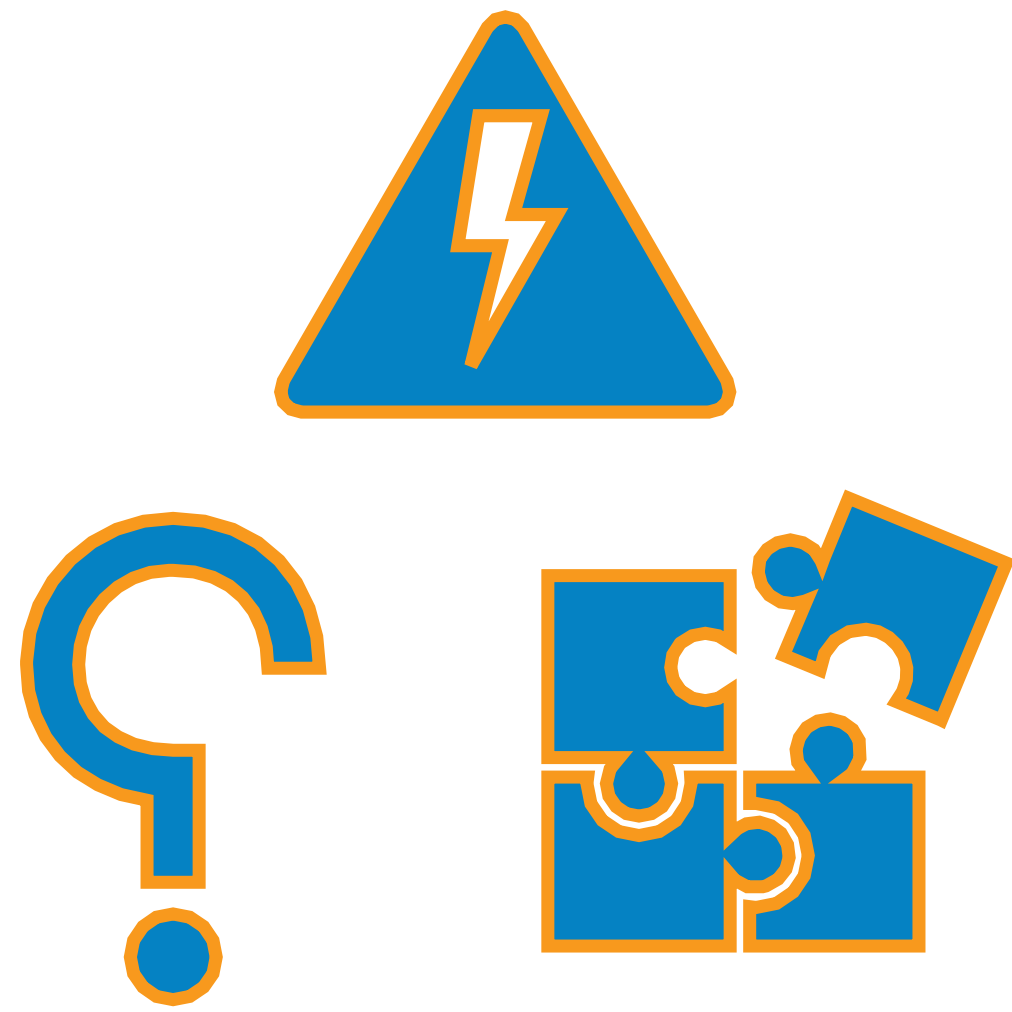
Accept

Accepting an opportunity acknowledges its existence but no proactive action is taken.

Positive
Risk



The Real Business Examples!



Enterprise Project Risk Management Process Worldwide



Risk Response Plan

Negative Risk

Extending the schedule.
Changing the project Strategy.
Reducing Scope



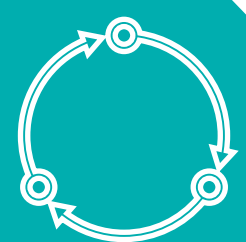
Avoid

Adapting less complex process.
Conducting more tests.
Choosing a more stable seller



Mitigate

Use of insurance.
Performance Bonds.
Warranties & Guarantees.



Transfer

Establish a contingency reserve.
Including a mount of time,
money or resources.



Accept



Risk Response Plan

Positive Risk

Exploit



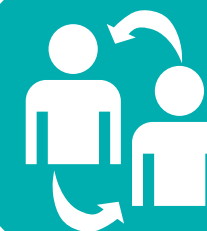
Assigning an organization's most talented resources to the project. Using new technologies or Technology upgrades.

Enhance



Adding more resources to an activity to finish early.

Share



Sharing actions include forming risk sharing partnership, teams, special purpose companies or joint Ventures

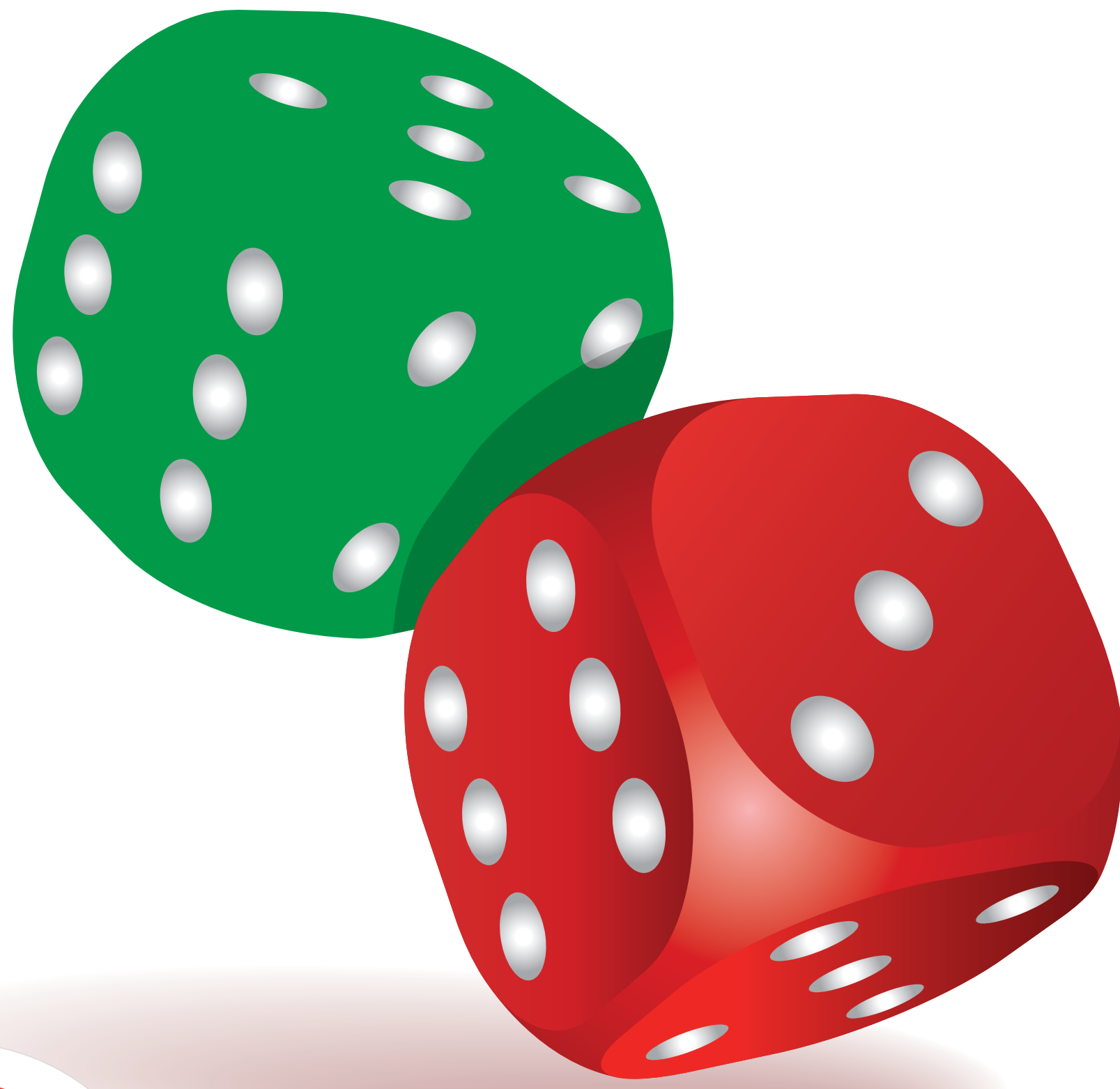
Accept



Establish a contingency reserve. Including a mount of time, money or resources.



Mitigation Strategies For Financial Risks



Risk

- Foreign currency fluctuation risk
Includes changes in investments value
- Interest rate risk/market risk
Exposure to changes in fair values of certain liabilities
- Intense competition in marketplace
adverse global economic conditions
reports of food-borne illness or food tampering threat from natural disasters

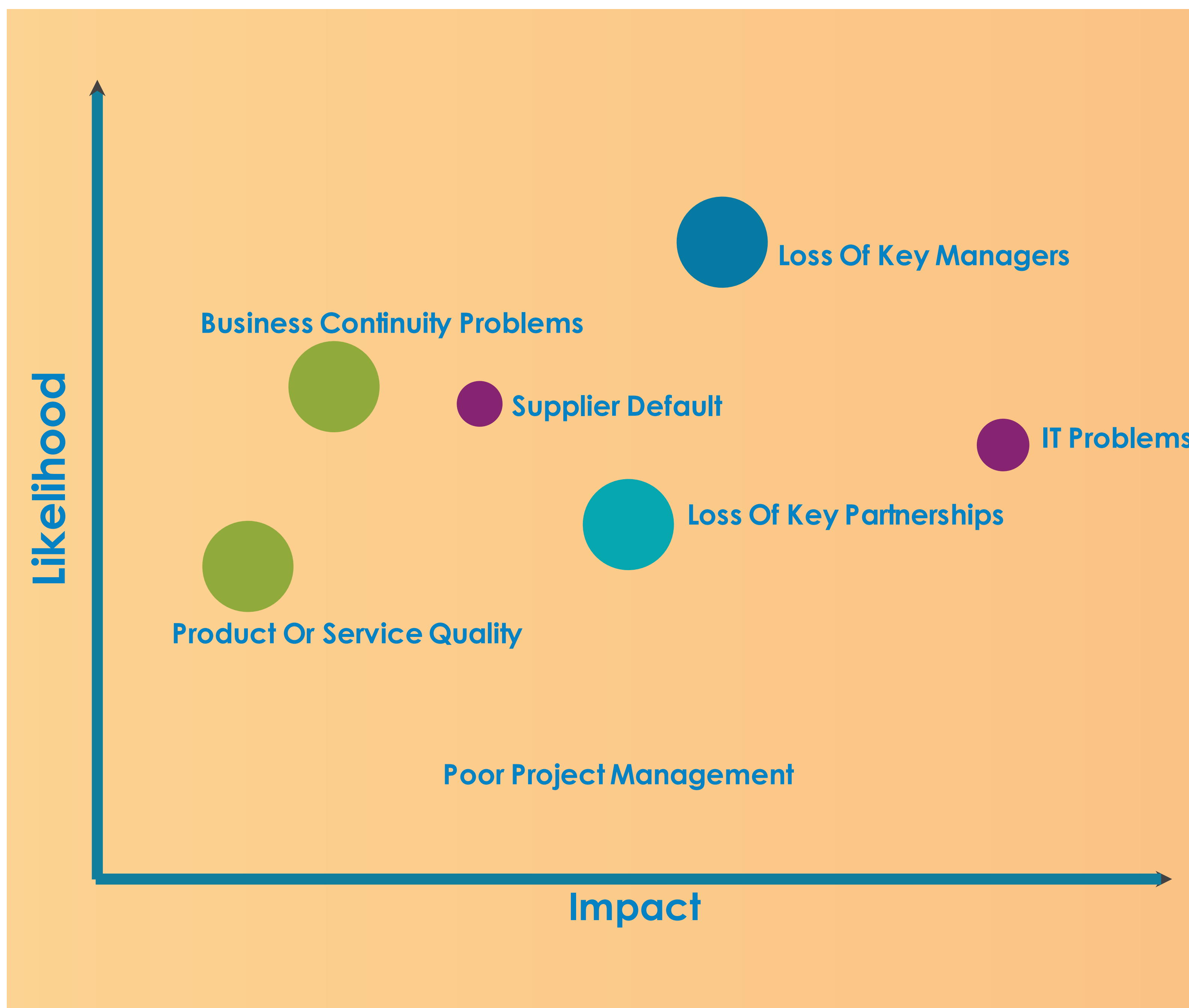


Reward

- Business uses foreign-exchange debt and derivative instruments to mitigate the effects of those changes
- Company uses fixed pricing agreement with suppliers
- Although, the company follow key steps to deal with such risks (i.e. signing agreement with third parties); however, these risks are dependent on external forces and cannot be monitor completely

Risk Tolerance

The probability is the likelihood of an event occurring and the consequences, to which extent the project is affected by an event, are the impacts of risk. By combining the probability and impact, the Level of Risk can be determined



Risk Likelihood
is the possibility of a potential risk occurring, interpreted using qualitative values such as low, medium, or high

X

Risk impact
is an estimate of the potential losses associated with an identified risk

=

Risk Tolerance
Is The Probability Of An Unfortunate Event Occurring, Multiplied By The Potential Impact Or Damage Incurred By The Event

Checking Result

Outcome

**Awareness Of The Environment
(Technical - Social - Political - Market - Economic)**

Proactive Respond To Uncertainty

Awareness Of All Project Variables

Ability To Prosect Threats And Opportunities

Project Delivery With Low Negative Impact

Improving Project Performance & Outcome

Cost & Time Aligning With Project Objectives



Checking Result

Check

Considering Environmental Factors When Evaluating Risks And Response

Risk Responses Aligned With Project Budget, Schedule And Performance

Actions Addressing All Appropriate Factors For The Project

Systems For Identifying And Responding To Risk Are Robust

Set Delivery Date Are Met, Within Set Budget

Teams Use Established Mechanism To Identify Opportunities

Teams Take Proactive Steps To Prevent Threats, So Limiting Cost & Time

Important Risk Management Terms

01

RESIDUAL RISK:

A risk that remains after risk response strategies have been implemented.

02

SECONDARY RISK:

A risk that emerges as a result of implementing a risk response strategy.

03

FALLBACK PLAN:

A planned response to a risk used when a primary risk response fails.

04

UNKNOWN:

Unknown risks or outcomes. Management reserves are used to manage project unknowns and typically the project manager must get management permission to apply management reserves to the project.

Important Risk Management Terms

05

RISK SEEKING:

A behavioral attitude in certain stakeholders characterized by the willingness to take risks.

06

ISSUE:

A project risk that has occurred.

07

RISK TRIGGER:

A warning sign that a risk has occurred or is about to occur.

08

WORKAROUND:

A response to a negative risk (unplanned at the time the risk occurred) used when prior planned responses have failed.

Important Risk Management Terms

09

PURE RISK:

A term used to describe risks that are purely negative or with no chance of gain.

10

RISK AVERSE:

A behavioral attitude in certain stakeholders characterized by the unwillingness to take risks.

11

BUSINESS RISK:

A term used to describe risks that businesses encounter which could be either positive or negative with a chance of loss or gain.

**Reference:
PMBOK Guide**



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