RISK MANAGEMENT PLANNING - KEY ELEMENT IN PROJECT INVESTMENT SUCCESS

CONSTANTINESCU DUMITRU, GEORGE DORIN PETCU
University of Craiova, Faculty of Economics and Business Administration

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ABSTRACT

Risk Management Plan is part of the Master Management Plan for each and every project and has a very special particularity, respectively it might be the case never to use any of the planning comparing with other plans included in the Master Management Plan. On the other hand it is possible that the measures included within not to be enough, considering the poor analysis of the risks, therefore is extremely important to understand how to start the analysis and how to assess the risks, respectively how to develop the risk response strategies.

As a first step we need to understand what Risk Management Plan is, what are its components and why it is so important for a project success.

INTRODUCTION

Often it is said that project management basically a risk management procedure. Starting from the very origin of the term risk, the project manager should try to remove the wide variety of risks they may be exposed to a project.

One of the first definitions of risk was filed by C.Hardy, in its view risk is "an uncertainty about costs, loss or damage" (C.Hardy, Risk and Risk Bearing, 1923).

Around the same period, in 1921, Frank Knight made perhaps one of the most famous definitions of risk definition which caused many discussions and interpretations of the great economists of the time. Frank Knight defined risk from two perspectives, on the one hand expressing it as an occurrence probability of an event, and on the other hand considering exposure to the event. The debates at the time were mainly focused around the concept of probability, considering that the only real element assessed either by direct observation and consideration, either by mathematical and statistical studies (Glyn A. Holton, "Defining Risk." Page . 19).

Although theorists have approached early on the concept of risk and risk management, they have emerged only after 1990 while an increasingly amount of studies in the field of risk management in projects (Chapman and Ward, 2003). In this approach have been involved several professional bodies in project management, leading to a somewhat enhanced approach to the phenomenon. The UK Association for Project Management (APM, 2006) uses the concept of risk event: an event or series of uncertain circumstances which, if they occur, affecting the achievement of one or more objectives of the project (p. 152).

In the U.S., the Project Management Institute (PMI, 2004) defines risk as "an uncertain event or condition that, if it materializes, has a positive or negative effect on at least one project objective, such as, cost, time, purpose or quality.

Considering the manifestation of risk, it is invariably seen as a failure in providing the envisaged amount of cash or as additional costs; therefore we can say that a simple definition of risk is any event that modifies the projected cash flows.

Risk in projects hace as sources the uncertainty in all projects, no matter how well defined and planned. Known risks can be identified and analyzed in a higher or smaller details and risk management strategies may be developed either in order to limit the impact of the risk or to reduce the likelihood of risks materializing it in case the negative effect that increase the probability and impact for positive risks.

Such pro-active risk response strategies cannot be developed for unknown risks. From this perspective, a prudential and caution attitude of the projecting team would be to allocate special reserves of resources for such events.

Organizations may behave differently at risk, their risk perception being different depending on their purpose and objectives. Thus, a tight schedule may be a threat for a company with limited number of personnel from perspective of project delays in execution perspective, instead for an organization that may involve additional staff, such programming should not pose a major threat.

Organizations perceive risk as related to project success threats or as opportunities that multiply the chances for a successful implementation of the project.

By extension, people as individuals, part of the project team has a different perception of risk and react differently under similar risk. A consistent approach of the risk as concept must harmonize the requirements of both the organization and its policies on risk and communication on risks and risk management must be open and honest, only in this way can be balanced current two existing in any organization, the risk acceptance and risk avoidance.

In fact, the risk should be correlated with the concept of risk management in projects, which involves a process of risk management planning, risk identification and analysis, response, monitoring and control of a project (PMBOK, p 237).

MATERIAL AND METHOD

Going back to Frank Knight on risk definition must look risk management and its planning from the two perspectives mentioned: on the one hand the probabilities of a particular manifestation of the event, and on the other hand to take into account the exposure to such event. In this regard, a clear and explicit planning project planning can greatly help in planning risk management. For this reason we can say that the project is most at risk in the early stages of this, the ultimate risks to which it is exposed beings smaller, but that does not mean that its cannot have a major impact on the project.

Because of this Risk Management Plan must begin and be completed in the planning phase of the project, since it is crucial that this process worked flawlessly throughout the project. (PMBOK, p 242).

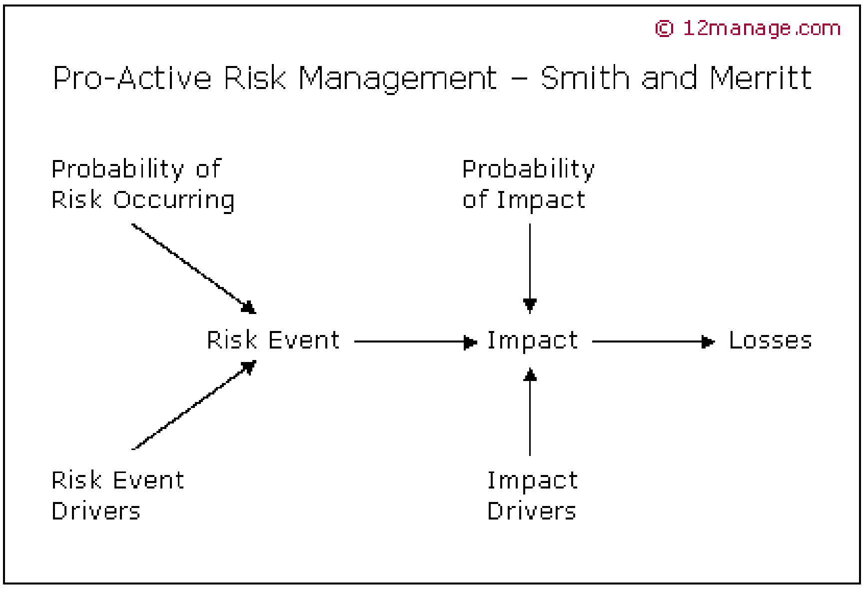

Fig. 1 Risk management structure (source: www.12manage.com, Smith and Merrit – Risk Management)

A proactive risk management process requires that in addition to proper risk analysis to identify potential risks and the probability of the risks to occur and factors contributing to their occurrence. Afterwards will be assessed the impact of risk considering its likelihood occurrence and the catalysts factors that increase the impact, all these being than translated in the cash flow forecast initially (fig. 1).

Considering to have a proper risk management planning the first step is to consider the existing data:

- organization environment analysis, with a special focus on the general attitude towards risk acceptance and/or avoidance and the personnel involved;
- analysis of all processes within the organization, including the existing risk policies and strategies for risks response, existing standards and responsibilities and decision processes;
- declared goals of the project
- project management schedule

Analysis of the organization must be done from two perspectives. First, the organization must make a very good analysis of the internal environment and the external environment. While making this analysis permanently should be considered the goals and objectives of the organization, and in parallel the goals and objectives of the project.

To analyze the organization's environment, first we must define what that is, since the two major components of its, respectively the internal and external environment. Internal environment contains all elements for which the organization has substantial influence and control (T. Nistorescu, Strategic Management, page 102). By extension we can consider that the external environment can be defined as all the elements on which the organization can not intervene directly and does not have control.

Regarding the external environment, they are divided in turn into competitive (close) external environment and the far external environment. Competitive external environment can be defined as the external environment in which the organization operates. Often parts of the external competitive environment, due to the close dependence or proximity to the company may be confused with the internal environment of the organization. For example, reliance on a supplier or customer can be assimilated as an element of the internal environment of the organization, the customer or supplier is sometimes identifying with the organization under analysis.

For such analysis the SWOT model is used most often. It examines the organization potential by identifying the strengths and weaknesses of the organization, both in comparison to the competition in the market, and by considering the project objectives.Organization’s Strengths represents characteristics and distinctive competences that create for it a special advantage comparing with other organizations or with the standards in the respective industry.The Weaknesses points of an organization are those characteristics that provide a lower performance comparing with the other organization and with the standards in the respective industry.

Analysis of both the strengths and weaknesses need to consider all the functions and competences organization as: trade, finance, production, personnel, research - development and management.Also in this context needs to be done and analyze risk policies of the organization and how it is perceived risk and risk tolerance. Along with organizational analysis in this point will be analyzed and the perception of risk and risk tolerance staff participating in the project.

Lawrence and Lorch emphasized that the effectiveness of an organization is judged by the adequacy with which its member’s needs are met through planned interactions with the environment (Pugh and Hickson, "Corporate Management", page 49). Thus is very important as it can be known by analyzing how those involved have acted earlier and are their expectations in the near future. In this way you can more easily predict that as people or groups of people that may adversely affect, and positive evolution of the project.

In practice, any project manager identifies the group of stakeholders in the project and classifies the groups using a specific matrix, assessing the impact of each group in the project.

Table 1

Stakeholder Matrix

Groups	Scopes	Past reaction	Potential behavior	+/-	Actual behavior	To do

This tool not only allows the identification of a condition of fact, it is a veritable tool for application management in four directions (Boddy and Buchanan, "Take the lead", page 75), but also to monitor how the relationship develops between the Project Manager and the groups of stakeholders.

Management in four directions (Fig. 2.) involves the communication with all the stakeholders depending on the purpose of each of them in the project. Thus, we can consider four directions:

- **UP management**, characteristic relationship with top management and project sponsors, characterized by communication;

- **Transverse relationship** management involves cooperation with other departments in the organization, with other senior managers having similar ranks. Characteristic of this type of management is negotiating organization resources

- **Team management** means motivating team members. Characteristic of this type of management is the motivation as notion and tool.

- **Personnel management**, requires staff involvement in the project, staff part of the global organization. Feature of this policy is involvement, without which the organization's staff not involved in the daily operations of the project would not be interested in it.

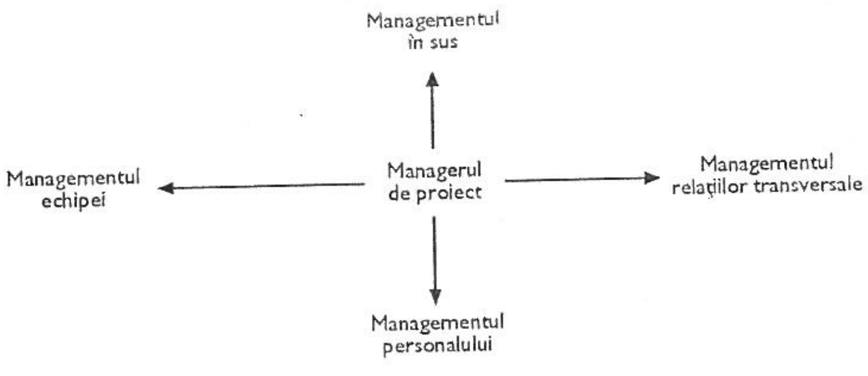

Fig. 2 Management in four directions (source: Boddy si Buchanan, „Take the lead", page. 76)

Coming back to the SWOT Analysis we have to notice that the last two elements are Opportunities and Threats.Opportunities may be chances, favorable conditions and represents a combination of external elements conveying significant advantages for the organization, considering a certain course of action.

Threats, on a contrary, represent the situation or events that can put in danger the organization in all or in part, considering that the organization capacity to achieve its goals and objectives may be significantly reduced. Both Opportunities and Threats may occur in various areas, such as Politics, Economics, Social, Technological, Legal and Environment. The capital letter off all areas mentioned before comes to the generally acronym for this analysis, respectively PESTLE. SWOT analysis is a static one and cannot provide data regarding the dynamic evolution of the organization, but a snap shot of a situation. In order to observe the dynamic, the analysis have to be made periodically and the changes from the initial analysis to be carefully analyzed.

RESULTS AND DISCUSSIONS

A good SWOT analysis create the strategic advantage that the company may have. The result of such analysis will create the ground for a proper assessment of risks and give the opportunity to design trough an pro-active risk policy the necessary measures and to give the opportunity even to transform a risk into an opportunity.

The SWOT analysis made as a matrix will combine the outcome from the internal environment analysis with the external one and will give a first hint with regards to the risk profile of the company and project.

Based on these preliminary conclusions the organization may start the Risk Management Planning. This plan will describe how the risk management will be structured and haw will interact with the development of the project. The Risk Management Plan is part of a larger plan, respectively the Management Master Plan.

Nevertheless the Risk Management Planning will consist, without limitation, in the following elements:

1. Methodology: define the process, tools and data sources that will be used
2. Attributes and responsibilities: define the risk management team and individual responsibilities
3. Budget: the resources allocated and estimated costs with risk management process
4. Agenda: define when and how the risk management plan will be executed during the lifetime of the project
5. Risk categories definition
6. Defining the probability of the risk occurring and the impact of each identified risk
7. Development matrix probability / impact
8. Review the stakeholder tolerance to risk
9. Reporting standardization
10. Monitoring and control

CONCLUSIONS

Regardless the role, any stakeholder makes its plans and has its own agenda when it gets involved in a project. Nevertheless, plans and different agenda bring together different views, objectives and goals. Any stakeholder will consider the risks burden by participation in the project and first of all will analyze the organization whereas the project will be developed. The analysis will involve data and facts related with the organization on one hand and data and facts coming from external environment.

What is certain, if the internal data of the organization might not be clear or relevant, for sure the data and information from the external environment, including the PESTLE elements are available for any diligent stakeholder.

Providing that the organization that is developing the project does not provide a proper Risk Management Planning most probably some potential stakeholders will not submit their participation in the project, unless the respective plans is not adjusted accordingly or will renounce to participate into the project.

Typically, for organization with a strong organizational culture and with a proper risk profile will be more likely to attract other stakeholders to participate in a project. It is important not to forget that beside the organization, the personnel involved in a project is extremely important.

If into an organization for the daily activity usually the system used is more important that the people, because the procedure, norms and standards create patterns and habits, and the systems works until a significant external impulse create enough power to change the system.

In mirror, the project management is less based on systems, but on people skills and qualification. Sometime under project development, small events can create huge damages to a project, considering the impact or the length of the adverse effect.

From this perspective is very important that together with the organization to analyze the people involved to learn about their experience, prior behavior and how their presence will bring value or not in the project.

What is important is that risk people and risk plans incurs costs and in many cases these costs are significant, therefore another reason why the analysis must be diligently performed is to design such a Risk Management Plan that will cover reasonably the most important risk and most likely to occurs, but the costs and allocated resources remain in a reasonable range.

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