

## 6.5: Risks in Project Phases

Project risk is dealt with in different ways depending on the phase of the project.

### Initiation

Risk is associated with things that are unknown. More things are unknown at the beginning of a project, but risk must be considered in the initiation phase and weighed against the potential benefit of the project's success in order to decide if the project should be chosen.

#### ✓ Example: Risks by Phase in John's Move

In the initiation phase of his move, John considers the risk of events that could affect the whole project. Let's assume that John's move is not just about changing jobs, but also a change of cities. This would certainly incur more risks for the project. He identifies the following risks during the initiation phase that might have a high impact and rates the likelihood of their happening from low to high.

1. His new employer might change his mind and take back the job offer after he's given notice at his old job: Low.
2. The current tenants of his apartment might not move out in time for him to move in by the first day of work at the new job: Medium.
3. The movers might lose his furniture: Low.
4. The movers might be more than a week late delivering his furniture: Medium.
5. He might get in an accident driving from Chicago to Atlanta and miss starting his job: Low.

John considers how to mitigate each of the risks.

1. During his job hunt, John had more than one offer, and he was confident that he could get another job, but he might lose deposit money on the apartment and the mover. He would also lose wages during the time it took to find the other job. To mitigate the risk of his new employer changing his mind, John makes sure that he keeps his relationships with his alternate employers cordial and writes to each of them thanking them for their consideration in his recent interviews.
2. John checks the market in Atlanta to determine the weekly cost and availability of extended-stay motels.
3. John checks the mover's contract to confirm that they carry insurance against lost items, but they require the owner to provide a detailed list with value estimates and they limit the maximum total value. John decides to go through his apartment with his digital camera and take pictures of all of his possessions that will be shipped by truck and to keep the camera with him during the move so he has a visual record and won't have to rely on his memory to make a list. He seals and numbers the boxes so he can tell if a box is missing.
4. If the movers are late, John can use his research on extended-stay motels to calculate how much it would cost. He checks the moving company's contract to see if they compensate the owner for late delivery, and he finds that they do not.
5. John checks the estimated driving time from Chicago to Atlanta using an Internet mapping service and gets an estimate of 11 hours of driving time. He decides that it would be too risky to attempt to make the drive by himself in one day, especially if he didn't leave until after the truck was packed. John plans to spend one night on the road in a motel to reduce the risk of an accident caused by driving while too tired.

John concludes that the medium risks can be mitigated and the costs from the mitigation would be acceptable in order to get a new job.

### Planning Phase

Once the project is approved and it moves into the planning stage, risks are identified with each major group of activities. A risk breakdown structure (RBS) can be used to identify increasing levels of detailed risk analysis.

Table 6.2 Risk Breakdown Structure (RBS) for Packing John's Apartment

Level 1	Level 2	Level 3 – Risks	Mitigation
Packing	Pack Kitchen	Cuts from handling sharp knives	Buy small boxes for packing knives (RR)

		Cuts from cracked glasses that break while being packed	Discard cracked glass (RA)
		Transporting alcoholic beverages	Give open bottles to Dion or Carlita (RA)
	Pack Living Room	Damage to antique furniture	Supervise wrapping and loading personally (RR) and require movers to insure against damage (RT)
		Lose parts while taking apart the entertainment centre	Buy a box of large freezer bags with a marker to bag and label parts (RR)
		Break most valuable electronics – TV, DVD, Tuner, Speakers	Buy boxes of the right size with sufficient bubble wrap (RR)
	Pack bedroom	Broken mirror	Buy or rent a mirror box with Styrofoam blacks at each corner (RR)
		Lose prescription drugs or pack them where they cannot be found quickly	Separate prescription drugs from transportation in the car (RA)
	Pack Remaining Items	Damage to house plants	Ask Carlita to care for them and bring them with her in the van when she visits in exchange for half of them (RS)
		Transportation of flammable liquids from charcoal grill	Give to Dion or Carlita (RA)
<b>Legend:</b> RA – Risk Avoidance; RS– Risk Sharing; RR – Risk Reduction; RT – Risk Transfer			

John decides to ask Dion and Carlita for their help during their first planning meeting to identify risks, rate their impact and likelihood, and suggest mitigation plans. They concentrate on the packing phase of the move. They fill out a table of risks, as shown in Table 6.2.

## Implementation Phase

As the project progresses and more information becomes available to the project team, the total risk on the project typically reduces, as activities are performed without loss. The risk plan needs to be updated with new information and risks checked off that are related to activities that have been performed.

Understanding where the risks occur on the project is important information for managing the contingency budget and managing cash reserves. Most organizations develop a plan for financing the project from existing organizational resources, including financing the project through a variety of financial instruments. In most cases, there is a cost to the organization to keep these funds available to the project, including the contingency budget. As the risks decrease over the length of the project, if the contingency is not used, then the funds set aside by the organization can be used for other purposes.

To determine the amount of contingency that can be released, the project team will conduct another risk evaluation and determine the amount of risk remaining on the project. If the risk profile is lower, the project team may release contingency funds back to the parent organization. If additional risks are uncovered, a new mitigation plan is developed including the possible addition of contingency funds.

## Closeout Phase

During the closeout phase, agreements for risk sharing and risk transfer need to be concluded and the risk breakdown structure examined to be sure all the risk events have been avoided or mitigated. The final estimate of loss due to risk can be made and recorded as part of the project documentation. If a Monte Carlo simulation is done, the result can be compared to the predicted result.

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