The Complete How-To Pocket Guide

TQM Wheel Source:
TQM Master Plan: An Implementation Strategy Research Report, GOAL/QPC
How to Use this Pocket Guide

This pocket guide is designed for you to use as a convenient and quick reference guide. The “What is it?” “Why do it?” and “How do I do it?” format offers you an easy way to navigate through the information in each section.

Use this guide as a reference on the job, or during and after your training, or as part of a self-study program, or to reacquaint yourself with the different types of tools/processes and their uses.

This simple reference is intended to take away some of the fear of complexity associated with risk management for managers, project managers, team members, and executives without a deep background in risk.

What do the different positions of runners mean?

Getting Ready—An important first step is to select the right tool for the situation. When you see the “getting ready” position of the runner, expect a brief description of the tool’s purpose and a list of benefits in using the tool.
Cruising—When you see this runner, expect to find construction guidelines and interpretation tips. This is the action phase that provides you with step-by-step instructions and helpful formulas.

Finishing the Course—When you see this runner, expect to see the tool in its final form. View examples from manufacturing, administration/service, and daily life to illustrate the widespread applications of each tool.

To Find a Term
Use the Glossary in the back of the book to find industry terms and definitions.

To Find the Start of Each Chapter
Look for the solid bar at the bottom of the page. At the start of each chapter, there is also a Risk Road Map that shows the five steps in the risk management process described in this book.

To Find the Case Study
Go to Appendix A. The case study (Appendix A) follows an organization as it implements a merger with a competitor.
To Find Tips and Pitfalls

Look for these tags for insights on how best to leverage the risk process or how to avoid many of the common pitfalls associated with process implementation.

Additional Pocket Guide References

GOAL/QPC Memory Joggers are referenced in this pocket guide, and are shown as acronyms.

The Memory Jogger™ 2 .................................................. MJ2
The Creativity Tools Memory Jogger™ ............................ CTMJ
The Project Management Memory Jogger™ 2nd Ed. .... PMMJ2

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Preface

RISK MANAGEMENT

is the fine art of dealing with the challenges of what could happen in a simple, orderly fashion. The guidance in this book is not designed to help you avoid all risks or even to bring them all to light. It is instead a chance for you to clarify how to predict as many risks as practicable and to deal with those that need to be dealt with.

The essence of risk management is to be slightly clairvoyant, based on what you already know and how you’ve managed it in the past. It’s coupled with finding out what others know and have managed in order to create the broadest possible understanding of risks and how to cope with them.

— Carl Pritchard, PMP®, PMI-RMP®, EVP

— Karen Tate, PMP®, MBA, PMI Fellow
About this Book

The Risk Management Memory Jogger™ (RMMJ) was written by Carl Pritchard, PMP®, PMI-RMP®, EVP and Karen Tate, PMP®, MBA, PMI Fellow to serve as a fundamental resource for those who need guidance on risk management from an individual, project or organizational perspective.

Risk management has evolved in recent years as a business imperative. As with the other books in the Memory Jogger series, the RMMJ provides a solid foundation to improve the success of your organization.

This pocket guide features a comprehensive look at the process of risk management and is aligned with both A Guide to the Project Management Body of Knowledge (A PMBOK® Guide), as well as with ISO 31000: Risk Management: Principles and Guidelines. The RMMJ breaks down the risk management process by first examining the infrastructure of a good risk management practice, and then walking through the processes of risk management, including planning, identification, analysis, response development and control.

The RMMJ is rich with tools that can be applied in virtually any environment. But while there are a host of tools, not all are applicable in every situation, and not all are required or needed for every effort.

While this guide promotes a process, every organization’s risk management process will vary. The key is to create a degree of consistency and to institutionalize the practices so that risk becomes part and parcel of regular performance within the organization.
Introduction

This pocket guide includes tools and techniques that range from classics of the practice to the latest, newest approaches. This book is closely aligned with the A Guide to the Project Management Body of Knowledge, as well as with ISO 31000: Risk Management – Principles and Guidelines.

A PMBOK® Guide is the global standard for project management published by the Project Management Institute (PMI). PMI is the largest not-for-profit membership association for the project management profession. PMI’s resources and research empower more than 700,000 members, credential holders and volunteers in nearly every country in the world to enhance their careers, improve their organizations’ success and further mature the profession. pmi.org

ISO, the International Organization for Standardization, is a global organization promoting international standards for business, government and society. ISO 31000 establishes processes that can readily be tailored for different organizations based on their needs and structure.

The differences in an organization’s needs are as varied as the organizations themselves. The risk practices they embrace will need to be adapted to fit their specific needs. The basic processes of risk management can still be applied whether organizations are virtual or co-located, traditional or agile, hierarchical or lean. The key is to ensure that processes and terminology are consistently established and applied. This pocket guide offers a wealth of options to choose from in establishing these processes.
The Risk Management Memory Jogger™  |  ©2013 GOAL/QPC

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The Risk Management Plan

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Risk Identification Tools

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Qualitative Risk Analysis
Quantitative Risk Analysis

Chapter 4
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Threat Strategies
Opportunity Strategies
Risk Strategy Matrix

Chapter 5
Monitor and Control Risks
Monitor Risks and Responses
Close Out Risks

Risk Road Map
PLAN RISK MANAGEMENT

- Establishing a Risk Culture
- The Risk Management Plan

What is it?

Risk is what may happen to you, good or bad, that will influence how your projects, work, and even your lives may turn out. Risk management is the process-driven approach that takes you through the uncertainties of those events.

Why do it?

It’s one thing to cope with problems whirling around you, but it’s another to actually manage them. Risk management makes dealing with the unpredictable aspects of work more predictable. It’s a matter of clarifying what can go wrong (or right), and having a plan to avoid it, live with it, or minimize it.
Establishing a Risk Culture

Every organization, project, household and individual has its own risk culture. It’s the processes people use. Risk culture is what you will or will not tolerate. It is also specific terms and language. That’s how organizations, individuals and management subgroups define their risk environment and culture.

The Risk Management Process

There are two main foundational elements of a risk culture:

- **Identify – Assess – Respond – Control**
- **Terms and definitions**

Terms like “high risk” or “moderate impact” need to be defined. Just as Noah Webster defined American culture with a new dictionary, risk managers need to define a risk culture with a definition of terms. No single way is absolute. But consistency is critical.

- Consistency doesn’t mean that every step has to be done every time or every term has to be applied the same way on each project. Sometimes it’s fine to omit steps or modify terms for a single effort, as long as there’s a documented justification as to why certain steps will be followed at certain times, and why they won’t be followed at other times.
Some managers will allow terms to be misused for the sake of expediency. Risks, for example, are future phenomena that have not yet occurred. Issues are risks that have happened. Letting someone get by using the term “issue” for “risk” or “risk” for “issue” can lead to confusion about how concerns are being managed.

The Risk Triad

The most basic definition is that of “risk” itself. Every risk is comprised of three aspects:

- Event
- Probability
- Impact
The event that may occur that could affect the objectives of the project or organization

- The likelihood of that event (probability)
- The impact of that event if it comes to pass

An understanding of risk begins with a clear, shared acceptance and understanding of the three aspects so risks can be genuinely managed.

**How do you weigh risks?**

Risk management is the process by which individuals and organizations determine the degrees to which risk may affect them, and what actions are appropriate based on that assessment. Because every individual has different experiences, different environments and different objectives, risk management is different for everyone. The simple effort of selecting the risks worth focusing on is a key component of risk management, since no two individuals are alike. Without risk management, individuals and organizations are left to deal with impacts only as they happen. It’s like getting on a crowded highway without knowing the rules of the road.
How Does Risk Management Help Individuals and Organizations?

Risk management represents the rules of the road for maneuvering through uncertainty

<table>
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<tr>
<th>Risk Process</th>
<th>Driving Analogy</th>
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<tr>
<td>Risk Management Planning</td>
<td>Driver education</td>
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<td>Risk Culture</td>
<td>Driving on the right, rather than the left</td>
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<td>Tolerance</td>
<td>Driver will not drive off the road</td>
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<td>Threshold</td>
<td>Within 2’ of the edge of the road, driver will correct the path</td>
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<td>Trigger</td>
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<td>Risk Identification</td>
<td>Knowing what to watch out for</td>
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<td>Risk Analysis</td>
<td>Determining which threats are greatest</td>
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<td>Risk Response Planning</td>
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<td>Risk Control</td>
<td>Air bag deployment in an accident</td>
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All of the structures of risk management can easily be compared to the structures established by any highway authority. The speed limits, the warning signs, the highway patrol officers, the rumble strips and the lane markings all have their analogies in the risk management process. Without those controls, a drive down the road would have the potential to be pure mayhem. With those controls, the driving society generally functions well. The probability and impact of risk events are reduced, and a degree of normal behavior is maintained.

Risk management creates a common set of expectations for those who live within a given risk culture.
### Signs that indicate an organization has a poor risk culture.

- Individuals take risks that can put others or the organization at harm.
- Individuals are overly paranoid about risks that really aren’t that great a concern.
- Individuals take actions to deal with risks, driving up costs and extending timelines.
- Management appears unpredictable in its response to individual concerns.
- Efforts are undertaken without a clear understanding of short- and long-term consequences (and the ripple effect to other parts of the organization).
- Individuals have reactive attitudes about the future.
- There is a lack of understanding about risks and the future.
- There is reliance on “hope” as a strategy.
- The organization skips or shortchanges risk management because of a perceived lack or time.
- The organization skips or shortchanges risk management to avoid confrontation or bad news.
- “Fighting fires” is more common than preventing fires.
- Individuals who raise concerns about risks are labeled as trouble makers, not team players.
If your organization has a poor risk culture, you can build a more positive attitude toward risk, and avoid the misconception that risk management is merely dealing with the negative things that can happen. By applying step-by-step processes, effective and successful risk management can become the standard.

**Key Terms to Know**

Before launching into risk management, it’s important to understand the basic language of risk.

**Key Terms**

- **Risk** An occurrence (with a degree of uncertainty) that may happen to influence the objective. It can be positive or negative. A risk consists of the event that may happen, the probability of its occurrence, and the impact if it ultimately comes to pass.

- **Risk Management Plan** A document outlining the details of the approaches, terms, tolerances, timing, and processes to be managed.

- **Risk Management Process** A process applied to establish norms for risk, and to identify, analyze, respond to, and learn from risk within a given environment.
<table>
<thead>
<tr>
<th><strong>Key Terms</strong></th>
<th><strong>Definition</strong></th>
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<tr>
<td><strong>Risk Owner</strong></td>
<td>An individual who oversees and is accountable for a given risk event.</td>
</tr>
<tr>
<td><strong>Threat</strong></td>
<td>A negative risk event.</td>
</tr>
<tr>
<td><strong>Threshold</strong></td>
<td>A way to help identify those risks for which specific responses are needed.</td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>A positive risk event.</td>
</tr>
<tr>
<td><strong>Probability</strong></td>
<td>The likelihood that a given risk may occur.</td>
</tr>
<tr>
<td><strong>Tolerance</strong></td>
<td>The organizational, project-level or individual limit beyond which risks become wholly unacceptable.</td>
</tr>
<tr>
<td><strong>Impact</strong></td>
<td>Realistic worst-case or best-case scenario if the risk event happens.</td>
</tr>
<tr>
<td><strong>Response</strong></td>
<td>The activity, deliverable, or process by which an individual risk will be managed.</td>
</tr>
<tr>
<td><strong>Risk Register</strong></td>
<td>A spreadsheet or document providing information about individual risks and their strategies, including events, probabilities, impacts, responses, owners, and review dates.</td>
</tr>
</tbody>
</table>
Risks exist in an environment of uncertainty. If an event is a sure thing? It’s an issue.

Building the Glossary

Adopt terms that make sense in your culture. Consider other sources for terms as well:

- A Guide to the Project Management Body of Knowledge, Project Management Institute
- PRojects IN Controlled Environments (PRINCE2), Office of Government Commerce
- 21500:2012 Guidance on Project Management
- ISO 31000:2009, Risk management – Principles and guidelines,