



Managing Project Risk

Improving Project Governance

Projects are inherently risky. Risk exists from conception to completion and beyond, with many examples of cost and schedule overruns and even failed, shelved projects.

Too often, key stakeholders are presented with business cases for projects with limited information about the associated risks, the nature of risks and the potential financial exposure should the risks eventuate.

Following approval, project risk is often not monitored in a manner that provides on-going assurance.

Quantate project is a web application that provides the solution to the increasing expectation of good project governance.

Risk is defined as the “Effect of uncertainty on objectives”¹ with ‘effect’ being defined as “a deviation from the expected – positive and/or negative.”

¹ISO 31000:2009 Risk Management – Principles and guidelines

Project viability

The viability of any new project can only be assessed once all of the risks have been considered. Financial risk exposure is often covered by allocating a contingency fee, often a simple percentage based on the project management team's experience. A green field project's contingency fee may be 5%; a refurbishment 10%. IT projects may carry contingency fees as high as 50% with 30% being common.

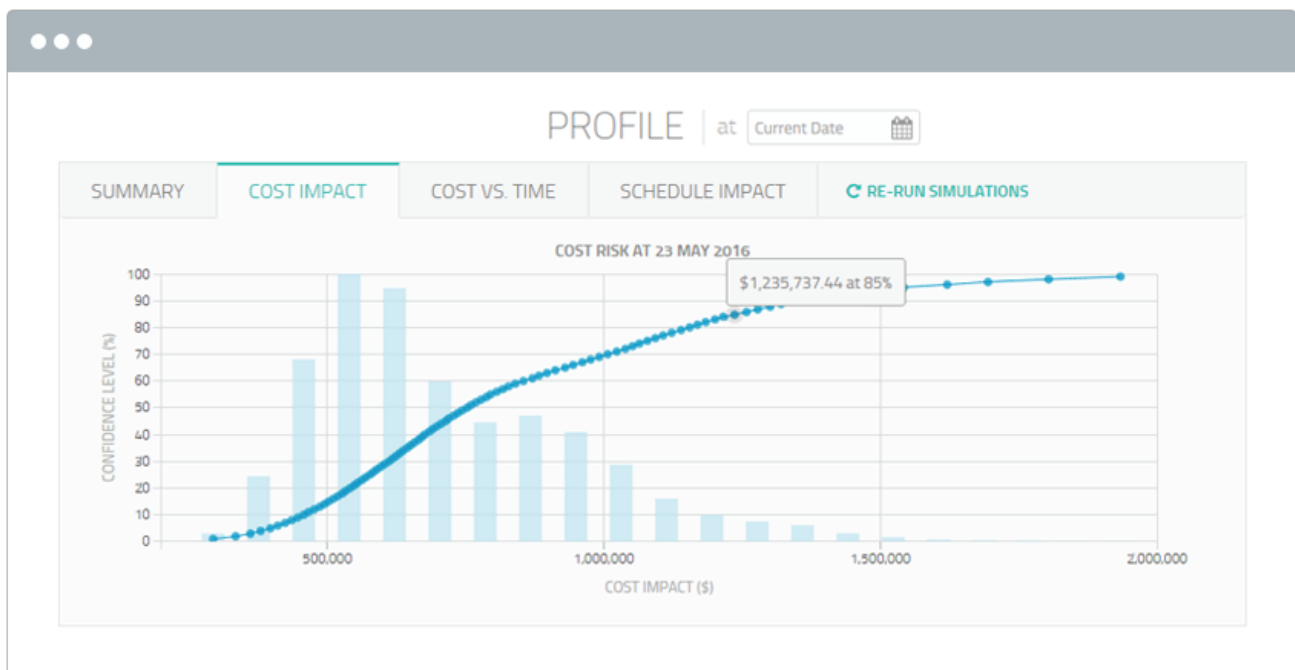
Whilst a contingency sum makes sense, without any realistic consideration to the risks it may be insufficient, and in some cases too high.

And it is not just about the money. Delivery of the project within an acceptable time frame may also be critical. What confidence can we have that the project will not extend beyond an unacceptable delivery date?

Subjective, qualitative risk assessment techniques may help but they lack the tangible results required for decision-making. For example, put simply, should we proceed with this project? Would we have the capital if certain risks were to eventuate?

A Structured Approach

- ▶ Quantate project's approach will help to provide greater certainty when evaluating project proposals and during implementation. It provides tangible information about the exposure of risk in quantifiable, more understandable terms e.g. pounds or dollars.
- ▶ Opportunities and threats can be considered. Opportunity realisation may be as important as threat minimisation, and both can increase the likelihood of project success.
- ▶ You set the level of confidence that is used to evaluate risk exposure that is consistent with the risk appetite for your organisation.



Using the graphic above; we are 85% confident that the risks associated with this project will not exceed \$1.235m

Keeping tabs on risk

Quantate project provides useful information during the entire lifecycle of a project.

Quantate project performs its quantitative analysis using Monte Carlo simulation. Each risk is described by its probability and potential outcomes (cost and schedule), the date that it no longer might occur and a distribution model that reflects the range of potential outcomes.

Risks are aggregated, and a profile created for the project. Results are summarised using simple statistics and illustrated graphically using confidence vs impact or impact vs time profiles.

- Scenario analysis can take into consideration the value and effect of risk treatment supported by meaningful cost benefit analysis
- Threats and opportunities can be considered in an integrated way

Future forecasting can be undertaken - what is the risk exposure 6, 12 or 18 months into the project?

Scenario 1 - Traditional, percentage approach to contingency allocation

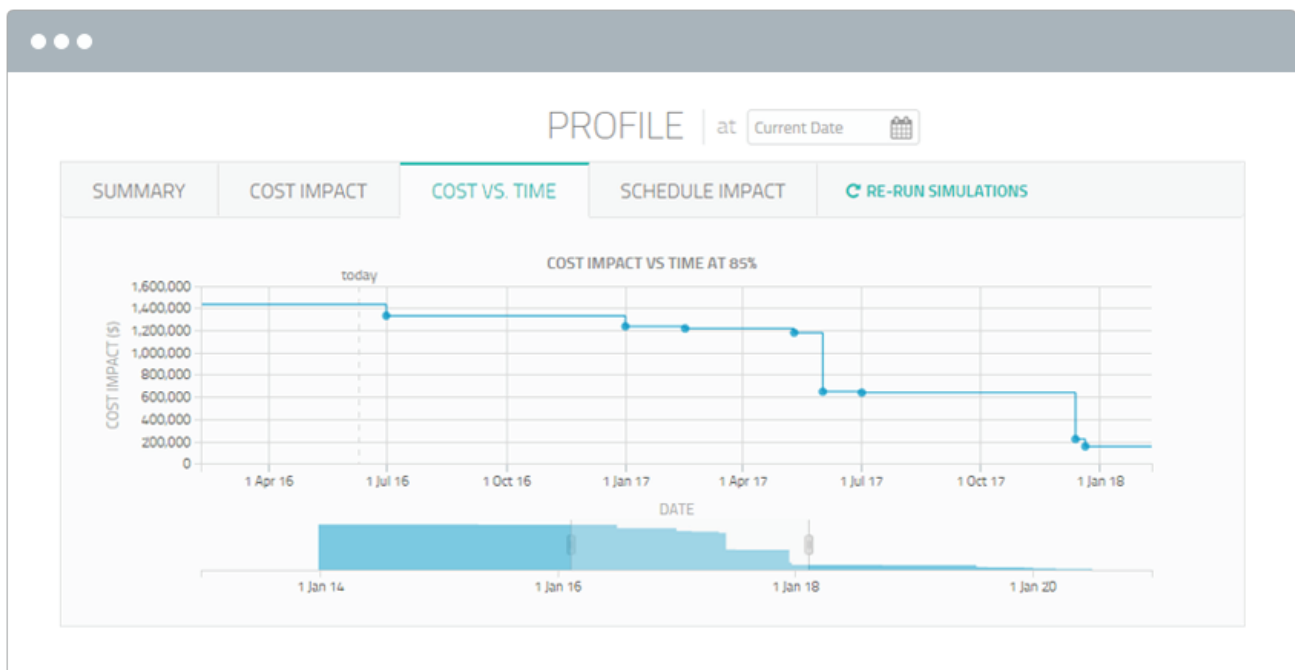
Finance manager: "We are 50% of the way through the project. Can we release 50% of the contingency allocation?"

Project manager: "Err, maybe"

Scenario 2 - Using Quantate project

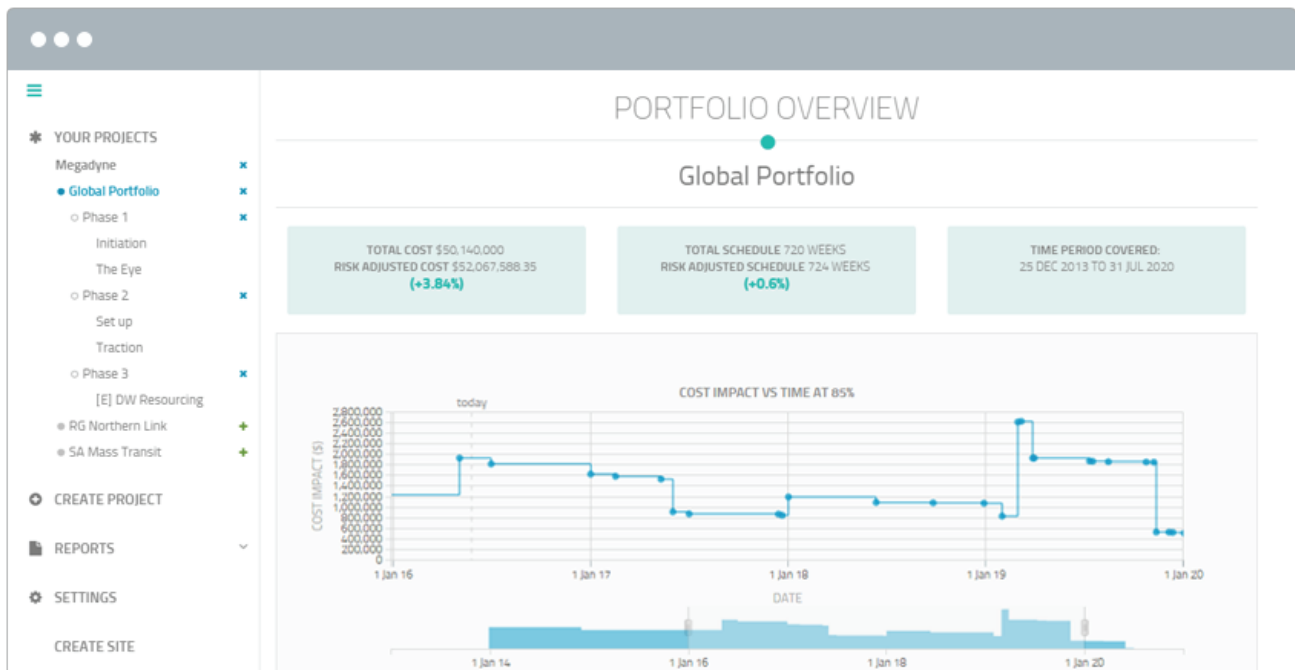
Project manager: "We are 50% of the way through the project. Our risk exposure is currently \$5.5m which is 35% of the initial contingency allocation. This is predicted to reduce to \$1.2m when I next report in 3 months time. Here is a register of the risks that we are still exposed to."

Finance manager: "Great, thanks! I'm confident that funds can be released for other projects"



All of organisation view

Quantate project provides a development platform that allows you to construct a hierarchy of portfolios and programmes for your projects. It then allows for the aggregation of risk at any level within the hierarchy that is developed. Analysis can be performed so that organisational, portfolio or programme risk exposure can be assessed at any time.



You can add your project managers at any level of your hierarchy with appropriate permissions to ensure the integrity of your information.

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