

UPRAVLJANJE RIZICIMA RADI USPJEŠNOSTI PROJEKTA

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Sažetak: Cilj ovog rada jeste definisati rizik, upravljanje rizicima i njihov značaj u uspjehu projekta. Danas, rizik je raširen biznisu i obuhvata sve aspekte svakodnevnog poslovanje u svijetu. Ovaj fokus na upravljanje rizicima daje svrhu da u svakom vidu poslovanja treba biti na oprezu. Upravljanje rizikom ima ulogu u svim aspektima poslovanja i rada, i ima veliki uticaj na buduće poslovne poduhvate, jer ako znamo da u svemu imamo rizik moramo znati kako iskoristiti taj rizik da bi dobili uspješan ili neuspješan projekt. U ovoj studiji pokušati dati sve važne aspekte koji se odnose na upravljanje rizicima, njihov značaj i sve prateće komponente.

Ključne riječi: rizik, upravljanje rizicima i važnosti rizika, poslovanja, uspjeh

RISK MANAGEMENT IN SUCCESS OF PROJECT

Abstract : In this study I aimed to define risk, risk management and its importance in success of project. Today, risk is rampant across all business and it encompasses all the aspects of everyday business in world. This form of the giving focus on risk management is making every business to be on caution. Risk management has part in all aspects of business and work, and it is making big influence on future for business because if we know that in everything we have to have some risk we have to know how to use that risk to get successful or unsuccessful projects. In this study I will try to give all important aspects related to risk management, its importance and all accompanying components.

Keywords: risk, risk management and importance of it, business, success

1. INTRODUCTION

The term "risk" refers to uncertain (i.e., stochastic) events and outcomes with known probability distributions. Perceptions of risk are based on subjective beliefs about the occurrence of uncertain events and their subsequent outcomes. Social risk management is closely intertwined with poverty reduction policies for several reasons as that risk causes direct losses because people tend to be risk averse. (Alderman and Paxson, 1992; Murdoch, 1995; Feinerman and Finklestein, 1997).

Risk is virtually anything that threatens or limits the ability of a community or non-profit organisation to achieve its mission. It can be unexpected and unpredictable events such as destruction of a building, the wiping of all your computer files, loss of funds through theft or an injury to a member or visitor who trips on a slippery floor and decides to sue.

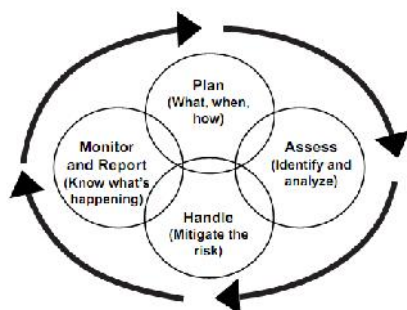
Risk Management (RM) can therefore be defined as a group of actions that are integrated within the wider context of a company organisation, which are directed toward assessing and measuring possible risk situations as well as elaborating the strategies necessary for managing them. It is basically setting up a process where you can identify the risk and set up a strategy to control or deal with it. It is also about making a realistic evaluation of the true level of risk. Risk management begins with three basic questions:

1. What can go wrong?
2. What will we do to prevent it?
3. What will we do if it happens?

Project risk management (PRM) is the culture, processes and structures, that are adopted by an organisation, directed towards the effective management of risk in projects. It should be a pervasive management discipline that is integrated with all other project disciplines. The goal of risk management is to ensure informed decisions are made at the right time, and that there is visibility of sources of uncertainty that may impact on the success of a project. From a project management perspective, risk management seeks to identify, prevent, contain and reduce negative impacts and maximise opportunities and positive outcomes in the interests of projects and stakeholders. It is a systematic approach that allows risks to be embraced, avoided, reduced or eliminated through a logical, comprehensive and documented strategy.

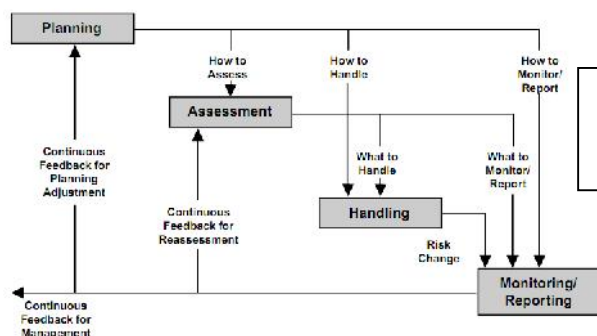
There are many ways to structure risk management as having four parts:

1. planning; (continuing process of developing an organized, comprehensive approach to risk management)
2. assessment; (consist of identifying and analyzing the risks associated with the life cycle of the system. Risk identification activities establish what risks are of concern, and risk analysis activities continue the assessment process by refining the description of identified risk event through isolation of the cause of the risk, determination of the full impact of risk and the determination and choose of the alternative courses of action.)
3. handling; (prime purpose of risk handling activities is to mitigate risk)
4. monitoring. (continuous process of tracking and evaluating the risk management process by metric reporting, enterprise feedback on watchlist items and regular enterprise input on potential developing risks)



A Continuous Interlocked Process—Not an Event

Picture 1.1. Four Elements of Risk Management



Picture 1.2. Risk Management Control and Feedback

As it is shown on picture 1.1 all of the parts are interlockes to demonstrate that after initial planning the parts begin to depend on each other. By ilustrating this picture 1.2 is showing key control and feedback relationships in the process.

2.WHAT MAKES RM SUCCESSFUL IN PROJECTS ?

A project is an endeavor to accomplish a specific objective through a unique set of interrelated tasks and the effective utilization of resources.

No manager can predict with accuracy what the outcome of a given project milestone will be. Full knowledge of the outcome will materialize when the manager and the team have spoken, to the extent that we can say before interaction and before results are achieved, they are partners in ignorance. They simply have to exchange ideas, or interact in order to achieve those results they will have planned for. In fact, even successful planning is dependent on interaction.

Risk management strategies allow you to identify your project's strengths, weaknesses, opportunities and threats. By planning for unexpected events, you can be ready to respond if they arise. To ensure your project's success, define how you will handle potential risks so you can identify, mitigate or avoid problems when you need to do. Successful project managers recognize that risk management is important, because achieving a project's goals depends on: *planing,preparationoon,results and evaluation.*

Achieving project sucess requires not just good front end definition and a well integrated project team,project success also hings on good management of project risks.It requires teams to:

- 1.identify,evaluate and register risks and key information;
- 2.assess risk severty/manageability;
- 3.develop mitigation and contingency plans;
- 4.acitvely track the risks and mitigation plans.

Holing a risk identification session early in a project,as a part of the front end development process will improve the project teams chances of having a successful project.

If project risk sometimes leads to project failure and one assumes that project risks are the “enemies” of project success, the question should be asked, when is a project successful?Kerzner (2006) defines project success as the achievement of the project objectives:

1. within time and cost ;
- 2.at the desired performance/ technology level ;
3. while utilising the assigned resources effectively and efficiently;
4. when accepted by the customer.

In writing about how risk management is influencing on success of project we can ask and answer questions as :

1.What factors are critical to project success?

Critical Success Factors are the areas of your business or project that are absolutely essential to its success. By identifying and communicating these factors, you can help ensure

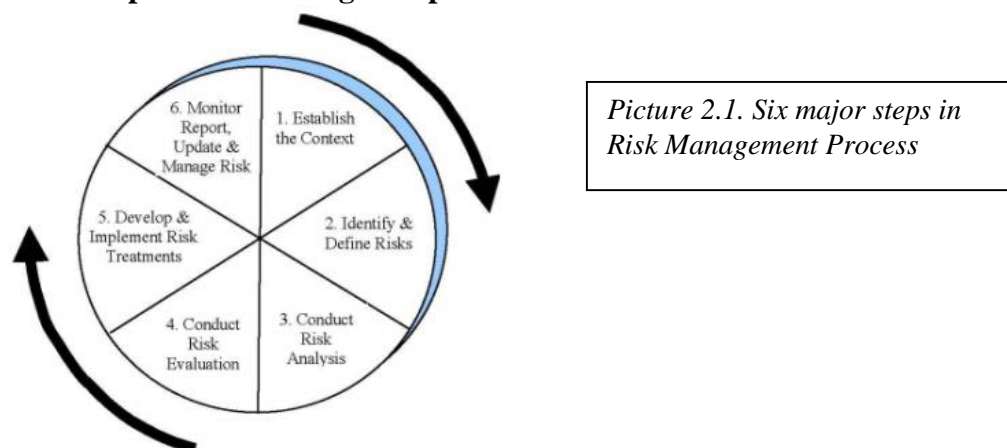
your business or project is well-focused and avoid wasting effort and resources on less important areas. By making critical success factors explicit and communicating them with everyone involved, you can help keep the business and project on track towards common aims and goals. Factors that are critical for project success are: well defined scope, active risk management, experienced and adequate project team, well defined processes.

2. What factors lead to consistently successful projects?

Having a talented project manager is the first step to actual project success, but there are other important factors that contribute largely to a project's outcome. It takes careful planning, attention to detail and effective communication to make a project succeed. Important factors that lead to success of projects are: smart planning, smart people, open communication, careful risk management and strong project closure.

So here we can conclude that main point for success of project is that we need good manager then good organization, team and communication between workers on project.

2.1. Steps in risk management process



Picture 2.1. is showing six major steps in risk management process. Steps 3 and 4 are collectively called assessment.

Process for establishing the context define and identify the organisation and project environments, characteristics, dependencies and stakeholders, their goals and objectives, and the scope and boundaries of the specific risk management process. Develop criteria against which risks are evaluated and identify the structure for risk management. Ensure all assumptions are recorded in the project charter or assumptions list. When the context has been established then the risk management plan can be prepared.

After establishing the context, the next step in the process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself.

The chosen method of identifying risks may depend on culture, industry practice and compliance. The identification methods are formed by templates or the development of templates for identifying source, problem or event.

Once risks have been identified, they must then be assessed as to their potential severity of loss and to the probability of occurrence. In the assessment process it is critical to make the

best educated guesses possible in order to properly prioritize the implementation of the risk management plan.

Risk treatments are developed to cost effectively reduce, contain and control project risk. Formal risk management reporting mechanisms are also defined. Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories: (Dorfman, 1997)

1.Avoidance - Includes not performing an activity that could carry risk.

2.Reduction - Involves methods that reduce the severity of the loss or the likelihood of the loss from occurring.

3.Retention - Involves accepting the loss when it occurs. True self insurance falls in this category. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained.

4.Transfer- Means causing another party to accept the risk, typically by contract or by hedging. Insurance is one type of risk transfer that uses contracts.

Those categories are also called **ACAT**, (for Avoid, Control, Accept, or Transfer).

3.CREATION AND IMPLEMENTATION OF RM PLAN

Risk mitigation needs to be approved by the appropriate level of management. For example, a risk concerning the image of the organization should have top management decision behind it whereas IT management would have the authority to decide on computer virus risks. The risk management plan should propose applicable and effective security controls for managing the risks. After completion of the risk assessment phase that consists from risk threatment plan it should be documented the decisions about how each of the risk has and should be handled. Mitigation of risks often means selection of security controls, which should be documented in a statement of applicability, which identifies which particular control objectives and controls from the standard have been selected, and why.

Important part for implementation is to follow all of the planned methods for mitigating the effect of the risks. Purchase insurance policies for the risks that have been decided to be transferred to an insurer, avoid all risks that can be avoided without sacrificing the entity's goals, reduce others, and retain the rest and on that way risk management plan will be implemented.

3.1.Limitations and areas of risk management

If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably. Unlikely events do occur but if the risk is unlikely enough to occur it may be better to simply retain the risk and deal with the result if the loss does in fact occur..

As applied to corporate finance, risk management is the technique for measuring, monitoring and controlling the financial or operational risk on a firm's balance sheet. The framework breaks risks into market risk (price risk), credit risk and operational risk and also specifies methods for calculating capital requirements for each of these components.

Areas of Risk management:

1. *Enterprise risk management* (a risk is defined as a possible event or circumstance that can have negative influences on the enterprise in question.)
2. *Risk management activities as applied to project management* (contains activities as: planning, assigning, maintaining, creating, preparing mitigation plans, summarizing planned and faced risks, effectiveness of mitigation activities and effort spent for the risk management.)
3. *Risk management and business continuity* (Risk management is simply a practice of systematically selecting cost effective approaches for minimising the effect of threat realization to the organization. All risks can never be fully avoided or mitigated simply because of financial and practical limitations.)

4.WHY IS RISK MANAGEMENT IMPORTANT IN PROJECTS ?

In a real sense, the whole discipline of project management can be seen as an attempt to bring structure and order to the various elements of uncertainty within a project. The project schedule describes the dependency relationships between project activities and their expected time-phasing, to reduce uncertainty about 'what happens when'. While each of the project management disciplines can be seen as addressing some aspect of project uncertainty, it is risk management which has the most direct relevance here, since it specifically and intentionally focuses on those uncertainties that matter. The whole purpose of the risk process is to identify risks and enable them to be managed effectively. As a result, risk management is essential for project success. The outcome of managing risks properly on a project is to reduce the number of threats that materialise into problems, and to minimise the effect of those which do occur. It also results in more opportunities being captured proactively and turned into positive benefits for the project. Effective risk management minimises threats, maximises opportunities and optimises the achievement of project objectives.

The success of a project's risk management strategies is dependent on the:

1. commitment of the sponsor and senior management to the risk management process;
2. skills and experience of the project team in the assessment of risks and the development of effective risk treatments;
3. project team, the business and other stakeholders working closely together to identify and manage all risks affecting the project;
4. use of an appropriate risk management process, methods and techniques continuously throughout the project; and
5. regular reporting of performance against risk treatments, with this reporting provided by the project team and through appropriate independent quality assurance processes.

4.1.Why are projects risky and why to manage risk in projects ?

There seems little doubt that projects are risky, as anyone who has ever worked on one will know. In fact there are three distinct and separate reasons for this, which we need to understand if we are to manage risk in projects successfully and that reasons are: common characteristics; deliberate design; external environment.

It is impossible to imagine a project without risk. Of course some projects will be high-risk, while others have less risk, but all projects are by definition risky to some extent. The 'zero-risk project' is an oxymoron and a logical impossibility - **it does not and cannot exist**. But the link between risk and reward makes it clear that not only is a project without risk

impossible, it is also undesirable. The important thing is not to keep risk out of projects, but to ensure that the inevitable risk associated with every project is at a level which is acceptable to the sponsoring organisation, and is effectively managed. Indeed those involved with launching, sponsoring and managing projects in organisations should welcome risk in their projects, since it enables and supports change, innovation and creativity – as long as it is taken sensibly, intelligently and appropriately, and as long as it is managed effectively. It is also important to remember that not all risk is bad, since the concept includes both threats and opportunities. Within the project context, this means that there are uncertainties that matter because if they occurred they would hinder achievement of project objectives (threats), but there are also uncertainties whose occurrence would help to achieve those objectives (opportunities). This of course is why risk management is such an important part of project management: since all projects are exposed to risk, successful projects are the ones where that risk is properly managed. When considering risk in projects, there are two levels of interest, typified by the scope of responsibility and authority of the project manager and the project sponsor. The project manager is accountable for delivery of the project objectives, and therefore needs to be aware of any risks that could affect that delivery, either positively or negatively.

Risk management is most successful when it becomes fully integrated into normal operating procedures, processes and systems. Like all good management practices, it should be driven from the top down and be recognised as the responsibility of everyone.

5. MINIMIZATION OF RISK AND INSURING AGAINST IT

One possible way of minimising the risk of litigation is by having your clients sign waivers before entering your service. It is important to realise that waivers do not constitute an excuse or protection for people or organisations that act in a negligent manner. And a waiver does not relieve the organisation from its duty of care to the person signing the waiver. A waiver is valid only if all the possible foreseeable risks have been fully explained and that everything has been reasonably done to either eliminate or minimise or control the risk.

Insurance is not a substitute for risk management. Getting insurance only comes into the picture when you've done all you can to minimise risk. You can't foresee everything, though, and you can't avoid quite a lot of what you can foresee, and so you want to spread the risks across the sector; which means you need insurance.

5.1. Risk treatment and monitoring

Risk treatment involves developing strategies and action plans to maximise potential benefits and minimise the potential adverse impacts of risks. For major undertakings, it is necessary to prepare a risk management plan and ensure that it aligns with the project scope and for other projects, compile and collate risk action schedules and measures.



Picture 5.1. Alignment of roles and risk types.

(Source: Risk treatment diagram developed by Ian Hord)

In considering risk treatments it is sometimes helpful to categorise, or organise the risks into named categories or tiers aligned with the context of the project and aligning the function of the treatment to particular project outcomes. Picture 5.1. demonstrates this split of risk types and responsibilities. The treatments can then be viewed clearly in terms of their desired effect on particular elements of the project, assisting in identifying the appropriate tools and workforce required to assess and treat each risk.

Treatment options should be specific, accountable and clear enough for others to understand how the risk is to be treated. Risk treatments need to be assessed to ensure good cost benefit, where cost benefit is poor, alternative treatment should be sought.

Monitoring the current known risks to the project and the effectiveness of the respective treatments and controls and considering whether new risks may be evident and should be included on the risk register and treatments developed. In monitoring important things are to:

1. Ensure that the risk has an identified owner
2. To implement the risk treatment plan in accordance within the intended schedule and other key parameters;
3. To ensure that risk management activities continue to occur in accordance with the project risk management plan;
4. Periodically review risks via the risk register/risk log/consultation and evaluate the need for additional risk management effort;

It is important that each project team has sufficient resources to treat and monitor risk management plan effectively. Further to this, each team member must have a clear understanding about their role in mitigating the projects risks.

6.CONCLUSION

Project risk management is an essential and determinant step towards successful projects. All real risks that can affect one or more objectives of the project must be identified and managed. A detailed analysis and a precise definition of risk can lead to successful achievement of objectives. Risk management helps project organizations to achieve performance and profitability and at the same time prevents loss of resources. It provides a positive potential return on investment for organizational management, project stakeholders, project management, and team members and helps an entity get to where it wants to go and avoid pitfalls and surprises along the way. Changes in the project management plan that result

from the project risk management process may require decisions at the appropriate level of management to reassign personnel, establish or modify budgets, make commitments to others outside the project, interact with regulators, and comply with the rules of accounting and law. Project risk management should be conducted in compliance with these internal and external requirements and PRM should be conducted in a manner consistent with existing organizational practices and policies. It is a valuable component for any project management step and it adds value to all project management processes and provides benefits when it is implemented according to good practice principles and with organizational commitment to taking the decisions and performing actions in an open and unbiased manner. Risk management must be focussed on the areas of highest risk within the project with continual monitoring of other areas of the project to identify any new or changing risks.

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