

Classifying and Recording Risks

by Sophia



WHAT'S COVERED

This tutorial we'll discuss how to classify and record project risks by focusing on:

1. Risks

Risks should be identified in the early phases of a project, but the project manager should continue to search for new risks as well as monitor and manage existing risks over the life cycle of the project. A consistent method for classifying and documenting risks is necessary for success.



TERM TO KNOW

Risks

Identified occurrences that if they occur will have a negative impact on project scope and project success.

1a. Risk Matrix

A **risk matrix** is a tool project managers use to classify risks consistently. Each risk is assessed by the probability that the risk will occur, and the impact the risk will have on the project if it does occur. The risk matrix has probability and impact on its two axes.

		Probability of Occurrence		
		Low	Medium	High
Impact on Project	Low			
	Medium			
	High			



TERM TO KNOW

Risk Matrix

A technique to analyze the Impact and Probability of each potential risk that is used to determine if actions are required to mitigate a risk.

1b. Risk Rating

For the likelihood that the risk will occur, the project manager gives each risk a rating of high, medium, or low. **High probability risks** are likely to occur and therefore need to be watched closely or mitigated to reduce project impact.

Probability Ranking	Description
High	Likely to occur
Medium	May occur, but not a general expectation that they will happen
Low	Unlikely to occur, but will still have a negative impact if they do occur

High, medium, and low rankings are also given to the negative impact a risk will have on the project. **High impact risks** can cause significant harm to the project. These risks are called “project killers” because they have the potential to end a project.

Impact Ranking	Description
High	Will cause significant harm to the project
Medium	Bad but survivable in the short term; will not stop a project from succeeding
Low	Has little effect on a project



If a risk has a low probability and will not have a negative impact, then it doesn't need to be documented.



High Probability Risks

Risks that are very likely to occur and therefore need to be watched closely or mitigated to reduce project impact.

High Impact Risks

Risks that would severely impact project success and potentially kill a project from advancing.

1c. Risk Color Coding

When documenting risks, project managers often use color-coding to identify the risks clearly and to indicate the actions currently happening with the risk:

- Green indicates a risk that currently requires no action.
- Yellow shows risks that require tracking by the project manager. These risks are monitored regularly, and stakeholders should receive updates on status reports.
- Red signifies risks that require immediate mitigation.

The project manager should be reporting on the status of these risks often, sometimes on a daily or even hourly basis, depending on the issue.

2. Responding to Risk

The project manager handles risks with different classifications.

Suppose you are managing a project that's been tasked to create a new customer support system for our organization's website. Here are some examples of risks that could affect the project, and how these risks would be classified.

High Probability and High Impact

What if your company has never developed a website before, and the available resources have no expertise with customer support systems?

If the system is extremely complicated, and it's intended to handle a high number of customers, then there's a high risk that the system will not work well for customers when the project finishes.

		Probability of Occurrence		
		Low	Medium	High
Impact on Project	Low			
	Medium			
	High			

Given the circumstances, this is a high probability and a high impact risk and should be color-coded as a red risk.

Though there could be many mitigations for this risk, the primary mitigation would be to either hire an outside group to develop the site or hire designers and programmers experienced with these systems.

Medium Probability and High Impact

What if your organization does have experience with customer support sites, yet it is still a complicated project?

There would still be the risk that the system would not work, so the risk would still be high impact, but with medium probability. You might choose to hire additional experienced programmers to further offset the risk or just monitor the risk more closely.

		Probability of Occurrence		
		Low	Medium	High
Impact on Project	Low			
	Medium			
	High			

With medium probability, there is a choice to either mitigate or monitor. So this risk would be color-coded as yellow.

Low Probability and High Impact

What if key stakeholders decided to move the web server to another development platform?

This is unlikely to occur, but it could kill the work on the current project if it were to happen, so this is a high impact risk with low probability.

Probability of Occurrence

		Low	Medium	High
Impact on Project	Low			
	Medium			
	High			

Since there's little to no action that could be taken to avoid this, the risk would be marked as green. You should still document this risk and track it since low-cost opportunities might arise to mitigate it throughout the project.

Low Probability and Low Impact

What if your team lost a junior programmer?

If this is unlikely to happen, and if that person could be easily replaced, then this risk is low impact with low probability and is marked as green.

		Probability of Occurrence		
		Low	Medium	High
Impact on Project	Low			
	Medium			
	High			

A risk with low impact and low probability can usually be ignored. You may still document these risks if there's a chance that they could have a higher impact than expected.

Medium Probability and Medium Impact

Risks with medium impact and medium probability are handled similarly. These risks must be monitored, but no actions are required to remove them since there will be little project disruption even if they occur.

		Probability of Occurrence		
		Low	Medium	High
Impact on Project	Low			
	Medium			
	High			

They would be color-coded as yellow.

3. Risk Register

A **risk register** is a document that project managers can use to record risks, and may be updated throughout the life cycle of a project.

Risk registers should contain the following information:

- The date the risk was recognized and documented
- A short description of the risk
- The classification of the risk's impact and the probability that it will occur, as displayed on the risk matrix
- The contingencies to use to avoid the risk, or if the risk occurs

When making a risk register, multiple contingencies should be created for high impact risks. For low impact risks, no contingencies are needed; however, these risks can still be tracked to see if they evolve into greater risks.

Date	Risk	Probability	Impact	Contingency
1/10	Backup system does not operate properly	MEDIUM	MEDIUM	Move testing of backup system earlier in project schedule to find issues sooner

It's critical for the project manager to review the risk register often, update the information when needed, and report on existing risks to the key stakeholders.



TERM TO KNOW

Risk Register

A living document that records project risks during the life-cycles of a project.



SUMMARY

In this lesson, you learned how to use the **risk matrix** by **rating risks** and the color-coding associated with risks. You now understand how project managers respond to different risk classifications, and how to use the risk register to monitor risks throughout a project's life cycle.

Source: This work is adapted from Sophia Author Jeff Carroll.



TERMS TO KNOW

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