



THREE ESSENTIAL ELEMENTS OF RISK



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All risk management standards agree that the goal of risk management is to enhance the chances of success of the relevant endeavour. However each of them provides a different definition of risk: ISO31000:2009 calls it "effect of uncertainty on objectives", the PMI *PMBOK*[®] *Guide* has "an uncertain event or condition that, if it occurs, has a positive or negative effect on the project's objectives", and the preferred Risk Doctor definition is "uncertainty that matters". Each description is true, but only partly so. This matters because until we know what we are dealing with, we cannot manage it in the best way possible:

- If we use the ISO definition, then our first thought will be to focus on the *effect*;
- If we follow PMI, then we will start from the potential *occurrence*;
- With the Risk Doctor definition, we start from *uncertainty*.

Each of these, the effect, the event and the uncertainty, is a component of risk, but, on its own it is not a risk. Even taken in pairs they do not provide the full picture:

- an effect plus an event is *an issue*;
- an event plus an uncertainty is *a prediction*;
- an uncertainty plus an effect is *a concern*.

It is only when you put all three together that you can see what a risk is made of, and use this information to decide on what, if anything, to do about it. Of course, this then requires a longer definition, but the goal enhancing the chances of success is worth the effort. But what is "success"? It is more than simply "meeting objectives"; it must also include the condition of "complying with project constraints" in order for the final result to remain within scope. Given this clarification, a more complete definition is "*Risk consists of three parts: an **uncertain situation**, the **likelihood of occurrence** of the situation, and the **effect (positive or negative)** that the occurrence would have on project success*".

The three-part definition helps with three important stages of the risk management process:

- in risk identification, it supports the structured description of a risk ("risk metalanguage") in the form: "Because of <one or more causes>, <uncertain situation> may occur, leading to <one or more effects>";
- in risk evaluation, knowledge of potential causes allows you to evaluate the likelihood; identification of effects provides a basis for quantifying the impact;
- in risk response planning, the different parts of the definition suggest different response approaches:
 - for *threat avoidance*, understanding the *situation* may allow you to stop it happening or protect against its results;
 - understanding the *situation* can also be used to help us *exploit opportunities*;
 - in *risk transfer or sharing*, we seek a partner better equipped to address the *effect*;
 - for *threat reduction* or *opportunity enhancement*, we focus on the *effect* and/or the *likelihood*;
 - in *risk acceptance*, any contingency plan has to address the *effect*.

Including these three components when you describe risks (the uncertainty, the event and the effect) will help everyone involved in risk management to take account of these three important aspects of risk, and act on them to enhance the chances of success.