

Project management —

Part 3: Guide to the management of business related project risk

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Foreword

This British Standard has been prepared by Technical Committee MS/2.

It is a part of a series of standards that consists of:

- *Part 1: Project Management — Guide to project management*¹⁾;
- *Part 2: Project Management — Vocabulary*²⁾;
- *Part 3: Project Management — Guide to the management of business related project risk.*

The publication contains guidance and recommendations. It should not be quoted as if it were a specification, and should not be used for certification purposes.

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Summary of pages

This document comprises a front cover, an inside front cover, pages i and ii, pages 1 to 21 and a back cover.

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¹⁾ This was originally published as BS 6079:1996.

²⁾ In the course of preparation.

Introduction

Risk management is a core process within any business or organization regardless of size, activity or sector. Individuals and organizations can lose substantial sums of money as a result of not paying sufficient attention to the identification and management of threats to their goals and to the projects they commission. Similarly, full advantage cannot be taken of potentially beneficial opportunities arising in the course of their activities if these are not recognized in good time. Risk management is therefore as much about looking ahead to identify further opportunities as it is about avoiding or mitigating losses. On a wider level, efficient and effective management of risk can make a significant contribution to the economic and general welfare of society, as well as that of the businesses and projects directly concerned.

Although it is often suggested that formal risk management does not begin until the first actual risk assessment has taken place, risks are rarely ignored when initial plans are made, or decisions taken, to proceed with projects. It is simply that it is rare for *all* risks to be identified and taken into account *systematically* in the early stages of planning. It is well known that managers and their teams generally know what can go wrong and what worthwhile opportunities might occur. Without the benefit of systematic risk analysis however, it is not always possible for them to exploit their knowledge to the full. Even when an analysis is undertaken, a team will not always maintain and update it. Equally, sometimes when risks are foreseen, they are dismissed on the grounds that “it couldn’t happen here”. Risk assessment should therefore be seen as part of a continuous review process conducted throughout the life of each project. In this way, the many risks to the business that occur as a consequence of the projects it undertakes, can be identified and actively managed.

The benefits of systematic risk identification and risk management include:

- more realistic business and project planning;
- actions being implemented in time to be effective;
- greater certainty of achieving business goals and project objectives;
- appreciation of, and readiness to, exploit all beneficial opportunities;
- improved loss control;
- improved control of project and business costs;
- increased flexibility as a result of understanding all options and their associated risks;
- greater control over innovation and business development;
- fewer costly surprises through effective and transparent contingency planning.

This standard describes a process for identifying, assessing, and controlling risk within a broad framework. The main features of this process are illustrated in Figure 1. The risk management process described in this standard is applicable for each aspect of the business activity focus at each level of decision making.

Projects are the principal means by which a business moves forward. In order to manage risk effectively, the business, project, or sub-project goals need to be clearly identified. This is because it is only in relation to an organization’s or individual’s specified goals that risk arises. Confusion over project objectives is itself a major cause of project failure. Managing business related project risk involves taking account of business risks that affect its projects and project risks that affect the business. Within any project there are also inherent risks to the project itself, and to its sub-projects.

A vital part in clarifying goals and assessing risk is the identification of project and business stakeholders. The guidance in this standard highlights the importance of stakeholder analysis and suggests that it is integrated into the risk management process. Unless the stakeholders are identified and understood at an early stage the true extent of the management task and the source of much risk can go unrecognized. Identifying stakeholders also helps define the relationship between the business and its environment and the context in which its projects will be carried out. Not all stakeholders are easily recognizable and there can be many more organizations with influence and vested interests than is readily acknowledged. Taking stakeholders into account can ensure that planning is much more “viewpoint oriented”.

Annexes A to E are informative and give background information for a fuller understanding of associated risk management factors.

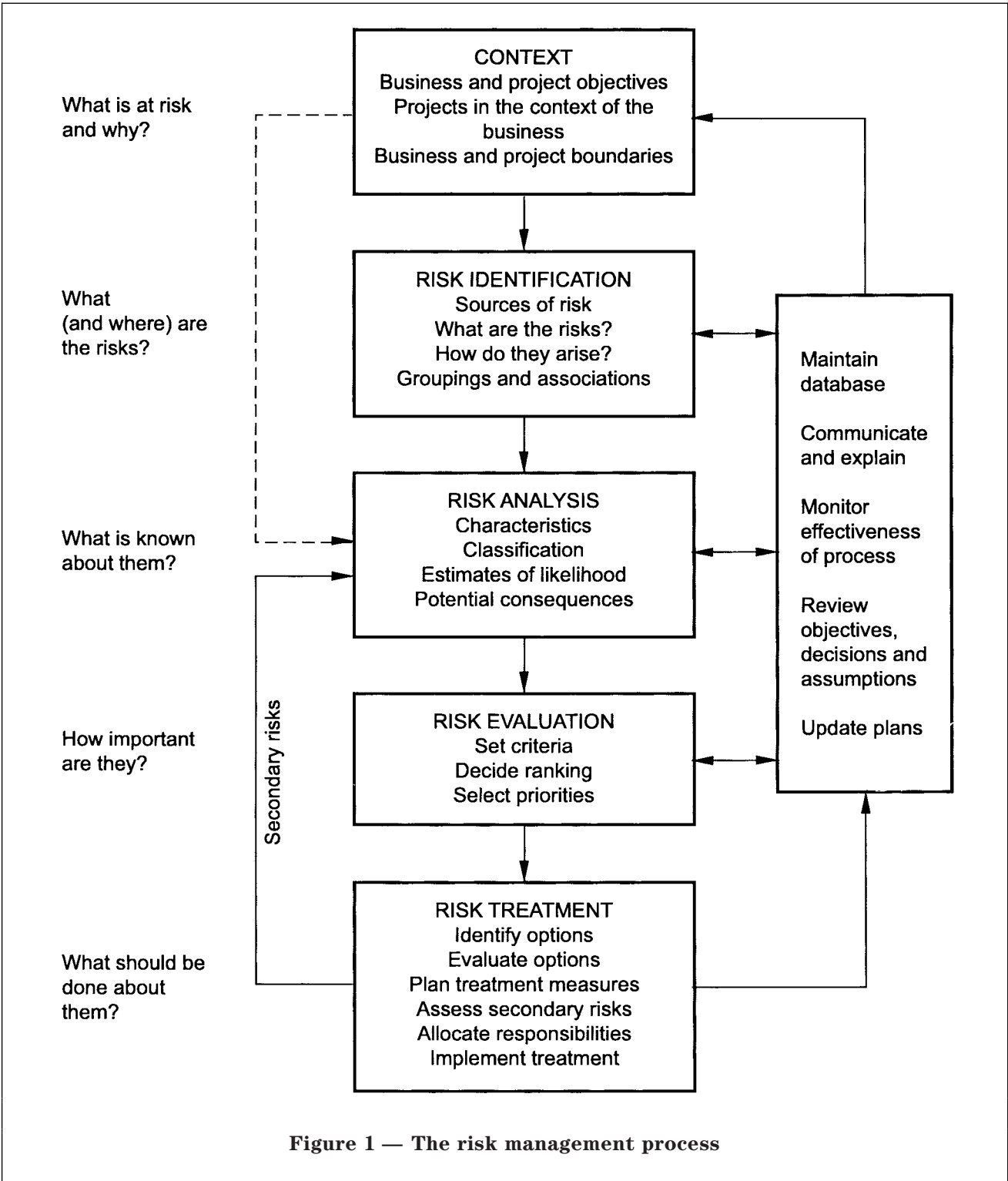
Annex A describes the importance of effective communication within risk management.

Annex B gives an overview of management tools that can be used to provide an analytical framework.

Annex C describes the significant aspects of risk perception which can impede risk management.

Annex D describes the principles involved in stakeholder analysis.

Annex E gives a listing of some common types of business risk.



1 Scope

This standard gives guidance on the identification and control of business related risks encountered when undertaking projects. It is applicable to a wide spectrum of project organizations operating in the industrial, commercial and public or voluntary sectors. It is written for project sponsors and project managers, either or both of whom are almost always responsible to higher levels of authority for one or more projects of various types and sizes.

It is intended that its application will be proportional to the circumstances and needs of the particular organization.

This standard offers generic guidance only and it is not suitable for certification or contractual purposes. It is not intended as a substitute for specific standards that address risk assessment in distinct applications, such as health and safety, or areas of technological risk.

NOTE This standard advises that risk management is treated as an integral part of good management practice. Risk management is an iterative process consisting of steps that enable continual improvement in decision making. Its effective use depends on the experience and judgement of the practitioners applying the guidance, and not simply on routinely following the steps outlined.

2 Terms and definitions

For the purposes of this British Standard the following terms and definitions apply.

2.1

residual risk

risk remaining after risk treatment measures have been taken

2.2

risk

uncertainty inherent in plans and the possibility of something happening (i.e. a contingency) that can affect the prospects of achieving business or project goals

NOTE Such contingencies could make the result more or less satisfactory.

2.3

risk analysis

systematic use of available information to:

- characterize the risks;
- determine how often the specified events could occur;
- judge the magnitude of their likely consequences

2.4

risk assessment

overall process of risk analysis and risk evaluation

2.5

risk consequence

effect on the interests and goals of those at risk if a risk event happens or a risky situation materializes

2.6

risk evaluation

process used to decide risk management priorities by evaluating and comparing the level of risk against predetermined standards, target risk levels or other criteria

2.7

risk identification

determination of what could pose a risk

2.8

risk impact

a measure of risk consequence

2.9

risk management

systematic application of policies, procedures, methods, and practices to the tasks of identifying, analysing, evaluating, treating, and monitoring risk

2.10

risk sharing

spreading of risk by sharing it with others

NOTE This is also referred to as “risk transfer”.

2.11

risk treatment

selection and implementation of appropriate options for dealing with risk

2.12

secondary risk

risk arising from the risk treatment process

2.13

stakeholder

individual, group or organization having a vested interest or influence on the business or its projects

2.14

stakeholder analysis

process for identifying stakeholders, their interests and influences

3 The business related project risk management model

3.1 General

The model outlined in this guide is shaped by two generic perspectives that can be applied to any kind of business or project. These are as follows:

- a) defining the relationships between the businesses and its projects;
- b) modelling the decision making processes associated with activities at different levels within either the business or project.

(Sub-projects often exist within larger projects, some of which can be described as business initiatives but which nonetheless have the same characteristics.)

The effects of decisions in all parts of the business and at all levels within the business and its projects can be far reaching and should not be considered in isolation. Good communication between each level of a business and between the business and its projects is essential. Annex A gives guidance on the factors that can play a part in an effective communication strategy.

3.2 The relationship between businesses and projects

Businesses operate in an external environment from which they can derive key opportunities and also experience constraints. Sources include other businesses and organizations; markets; governments; regulatory bodies; the legislative framework; the financial system; and society at large.

Any business takes inputs from its external environment, and acts on those inputs to produce goods or services, along with other outputs, such as profits, or pollution, which are then returned to the same environment. The nature and extent of these outputs will influence the future of the business. Projects should be viewed in exactly the same way as businesses, because the business or businesses that set up a project are significant elements of that project's external environment. Similarly, a large project can consist of several sub-projects, and this larger project then provides the external environment for its sub-projects.

The model, shown in Figure 2, shows the nature of business and project relationships relevant to understanding how to manage business related project risks.

Three types of relationships can be identified as follows.

- a) Businesses can set up projects in which the inputs and outputs are maintained wholly within the business boundary.

EXAMPLE

A project that trains staff to undertake new jobs can be carried out by a team from the organization's training department. Project inputs (including risks to the project from the business), and outputs (including risks to the business from the project), are mostly retained within the business. Risks that can arise from the functioning of the project should also be considered as outputs in this context, and will be wholly retained within the business.

- b) Businesses can set up projects that are partly within and partly outside the business boundary.

EXAMPLE

An illustration is where one business contracts with another for the supply of parts required by the first business. Risks from this type of relationship are born directly, to varying degrees, by both parties to the relationship, and indirectly by other parties, such as insurers.

- c) Collaborative or partnership projects can be set up by two or more parties from which they individually and jointly expect to receive benefits. Here also, project risks are also shared in various ways between the parties involved.

A project can itself be composed of several sub-projects, wholly or partly within the initial project or business.

EXAMPLE

Construction work could be divided between separate plastering, electrical, and carpentry sub-projects. Software production could be divided between teams (sub-projects) responsible for different modules. A sub-project could also be initiated to manage a particular risk. Each project, sub-project (and sub-sub-project, and so on), is at risk from the associated business, project, (and sub-project, respectively) that established it initially and which contributes inputs to it. The sub-projects, and projects, also produce outputs, both desired and risky for the associated projects and businesses.

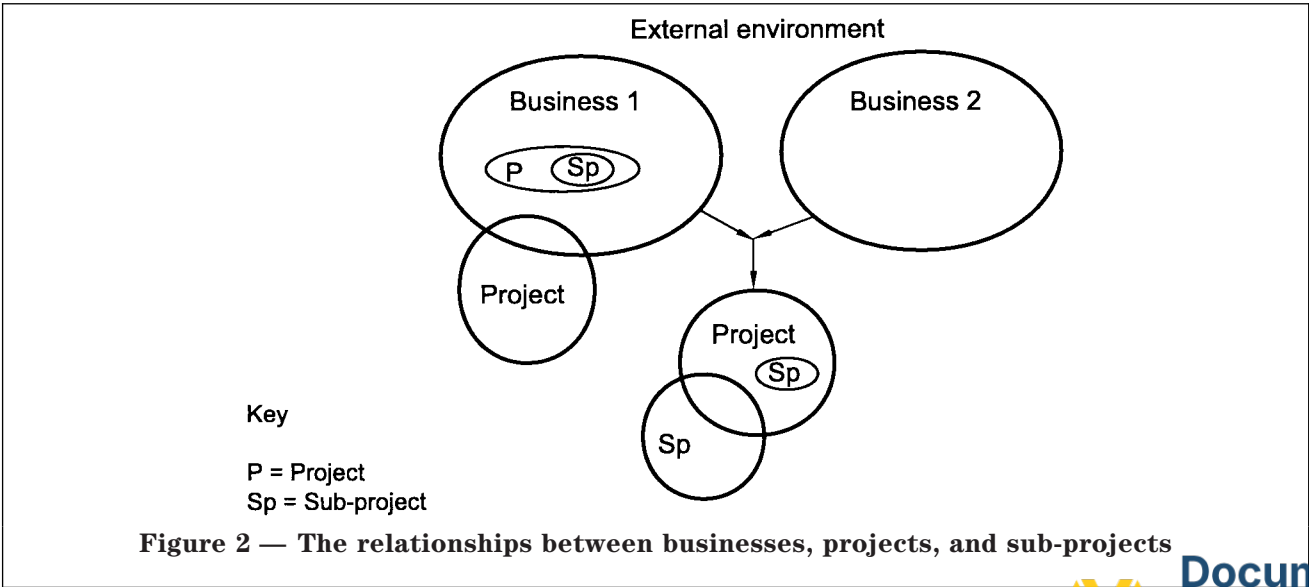


Figure 2 — The relationships between businesses, projects, and sub-projects