UNIT - 2



Leadership and Organizations Management, Strategic Planning, Budgeting, Project Planning - Risk Identification, Assessment and Response Planning



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UNIT-II

[7 hours]

Leadership and Organizations Management, Strategic Planning, Budgeting, Project Planning - Risk Identification, Assessment and Response Planning

Leadership and management



- Leadership is defined as the potential to influence and drive the group efforts towards the accomplishment of goals.
- This influence may originate from formal sources, such as that provided by acquisition of managerial position in an organization.
- A manager must have traits of a leader, i.e., he must possess leadership qualities. Leaders develop and begin strategies that build and sustain competitive advantage.
- Organizations require robust leadership and robust management for optimal organizational efficiency.

Differences between Leadership and Manageme

Leadership differs from management in a sense that:

- While managers lay down the structure and delegates authority and responsibility, leaders provides direction by developing the organizational vision and communicating it to the employees and inspiring them to achieve it.
- While management includes focus on planning, organizing, staffing, directing and controlling; leadership is mainly a part of directing function of management. Leaders focus on listening, building relationships, teamwork, inspiring, motivating and persuading the followers.
- While a leader gets his authority from his followers, a manager gets his authority by virtue of his position in the organization.
- While managers follow the organization's policies and procedure, the leaders follow their own **instinct**.

Differences between Leadership and Management



- Management is more of science as the managers are exact, planned, standard, logical and more of mind. Leadership, on the other hand, is an art. In an organization, if the managers are required, then leaders are a must/essential.
- While management deals with the technical dimension in an organization or the job content; leadership deals with the people aspect in an organization.
- While management measures/evaluates people by their name, past records, present performance; leadership sees and evaluates individuals as having potential for things that can't be measured, i.e., it deals with future and the performance of people if their potential is fully extracted.
- If management is reactive, leadership is proactive.
- Management is based more on written communication, while leadership is based more on verbal communication.
- The organizations which are over managed and under-led do not perform upto the benchmark. Leadership accompanied by management sets a new direction and makes efficient use of resources to achieve it. Both leadership and management are essential for individual as well as organizational success

Strategic Planning



What is Strategic Planning?

- Strategic planning is the art of formulating business strategies, implementing them, and evaluating their impact based on organizational objectives.
- The concept focuses on integrating various business departments (accounting and finance, research and development, production, marketing, information systems, management) to achieve organizational goals.
- The term strategic planning is synonymous with strategic management, only that the former is used in the corporate world and the latter in the academic setting.



- During that time, managers and the entire corporate world believed that strategic planning provided answers to most if not all business problems.
- In the 1980s, however, the hype reduced since some plans did not produce the expected returns. Its application was later revived in the 1990s and remains relevant



Strategic Planning Process

- The application of strategic planning in business is a result of difficult managerial decisions that comprise good and less desirable courses of action.
- The development and execution of strategic plans is a well-thought-out plan performed in three critical steps:



1. Strategy Formulation

- In the formulation of strategies, the business assesses its current situation by performing an internal and external audit. Strategy formulation also involves identifying the organization's strengths and weaknesses, as well as opportunities and threats (SWOT Analysis).
- As a result, managers get to decide which new markets they can venture or abandon, how to allocate the required resources, and whether to expand its operations through a joint venture or mergers.
- Business strategies result in long-term effects on organizational success; only top business executives understand their impact and are authorized to assign the resources necessary for their implementation.



2. Strategy Implementation

- After the strategy formulation, the company needs to establish short-term goals (usually one-year goals), devise policies, and allocate resources for their execution.
- It is also referred to as the action stage and is the most important phase of strategic planning. The success of the implementation stage is determined by the firm's ability to nurture an environment and a culture that motivates employees to work.
- Soft Skills
- ∙ Emotional Intelligence ●
- Critical Thinking
- A manager's interpersonal skills are critical during this stage.
- Effective strategy implementation also involves developing a functional organizational structure, maximum utilization of informatic Shaswat L. Padalia, Mechanical g marketing efforts, 10



3. Strategy Evaluation

- Any savvy business person knows that success today does not guarantee success tomorrow. As such, it is important for managers to evaluate the performance of various strategies after the implementation phase.
- Strategy evaluation involves three crucial activities: reviewing the internal and external factors affecting the implementation of the strategies, measuring performance, and taking corrective steps.
- All the three steps in strategic planning occur in three hierarchical levels: the corporate, middle, and operational levels.
- Thus, it is imperative to foster communication and interaction among the employees and managers in all the levels so as to help the firm to operate as a functional team.

Benefits of Strategic Planning



Benefits of Strategic Planning

- The volatility of the business environment causes most firms to adopt reactive strategies and not proactive ones.
- However, reactive strategies are short-term, causing firms to spend a significant amount of resources and time.
- Strategic planning helps firms prepare beforehand; it lets the company initiate influence instead of just responding to situations.

Benefits of Strategic Planning



1. Helps formulate better strategies using a logical, systematic approach

It is still the most important benefit. Some studies show the strategic planning process makes a significant contribution more than the decision itself.

2. Enhanced communication between employers and employees

Communication is crucial to the success of the strategic planning process. It is initiated through participation and dialogue among the managers and employees, which shows their commitment to achieving organizational goals.

Strategic planning also helps managers and employees to show commitment to the organization's goals. It is because they know what the company is doing and the reason behind it. Strategic planning makes organizational goals and objectives real, as the employees can understand the relationship between their performance and compensation. As a result, both the employees and managers become innovate and creative, which fosters the growth of the company further.

3. Empowers the individuals working in the organization

The increased dialogue and communication across all the stages of the process strengthens the employee's sense of effectiveness, initiative-taking, and imagination. It explains the need for companies to decentralize the strategic planning process by involving lower-level managers. A good example is that of Walt Disney Co., which dissolved the strategic planning department and assigned the roles to Disney business divisions.

Budgets and Budgeting



 In the broadest sense, a budget is an allocation of money for some purpose. The word once used to mean "pouch" or "purse"; a budget therefore is "what's in the pouch."

Budgeting has always been part of the activities of any business organization of any size, but formal budgeting in its present form, using modern budgeting disciplines, emerged in the 1950s as the numerical underpinning of corporate planning.

Modern formal budgets not only limit expenditures; they also predict income, profits, and returns on investment a year ahead. They have evolved into tools of control and are also used as a means of determining such rewards as profit-sharing and bonuses.

Unless the budgetary process is managed with extreme skill and care, the very virtues of budgeting can turn into negatives—and have, of late, emerged into a movement actively working to change this process.



In large corporations, budgeting is a collective process in which operating units prepare their plans in conformity with corporate goals published by top management.

Each unit plan is intended to contribute to the achievement of the corporate goals. Unit managers prepare projections of sales, operating costs, overhead costs, and capital requirements.

They calculate operating profits and returns on the investment they intend to use.

The budget itself is the projection of these values for the next calendar or fiscal year. As part of this process, each unit presents its plans and budget to a reviewing upper management panel and may, thereafter, make whatever changes result from instructions from or negotiations with the higher level.

Texts presenting, documenting, and defending the rationales underlying the numbers are usually part of the planning document. Approved budgets then become the road-map for operations in the coming year. Ideally monthly or quarterly budget reviews track performance against the budget. As part of such reviews, changes to the budget may be approved. At year-end managers are judged by their performance against the budget.

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- Many small businesses try to operate without a formal budget. Even some businesses that have a budget seldom consult it, meaning they are not gaining the business advantages that they could be through budgeting.
- For startup entrepreneurs, a budget is like a roadmap that can help them set goals and assess the validity of their business concept. For established small businesses, a budget can be used to take the pulse of the business, determining how the business is performing through the years, and helping identify possible future investments.
- By regularly consulting a budget, business leaders can compare actual figures and catch potential business shortfalls or other problems early. Budgets can also be instrumental in winning over investors, convincing banks your business is a good loan risk, or bringing on new partners or customers.



While budgets are developed bottom up, managers must strive to meet topdown business goals (e.g., "Annual growth in after-tax profits of 39 percent.").

Because performance is measured based on meeting or exceeding positive projections (of sales, returns, and profits) and meeting or coming in below negative projections (fixed and variable costs and capital expenditures) managers have strong incentives for projecting the lowest possible "positive" and the highest possible "negative" results.

The more successful they are in understating sales and profits and overestimating costs, the higher the likelihood of "meeting the budget." Top management's incentives, by contrast, are to do the opposite. Therefore the budgeting process is inherently marked by potential conflict.



- Such difficulties can be, and usually are, mitigated by rational policies, good will on both sides, and straight forward implementation. Projections should be as realistic and quantifiable as possible. If projections are out of line with historical patterns, up or down, management must question the planning. Thus, for instance, a sharply rising projection of costs must have some real-world justification. Overly ambitious revenue projections must also be questioned.
- Conversely, managers must resist pressures sharply to raise revenue targets unless tangible changes in the market or compensating raises in sales expenditures are present. If the negotiating levels are honest and realistic, the right projections will result. Ideally, operating units should not be measured on activities over which they lack full control.
- An operation which does not operate its own debt collection, for example, should not be measured on how rapidly invoices are collected. Since budgets are often at least 50 percent guess-work, formal budgetary review at reasonable intervals and realistic adjustments based on actual events must be part of a well-functioning process. All too often, the spring budgeting event is rapidly forgotten.

BENEFITS AND COSTS



The single-most potential benefit of formal budgeting lies in ensuring that responsible managers take time each year (and then at fixed intervals throughout the year) in thinking about their operation by looking at all of its aspects.

Budgeting creates a comprehensive picture of the future and makes both opportunities and barriers conscious. This foreknowledge then helps guide day-to-day activities.

The chief cost of the budget process is time. In some corporations the process takes on a life of its own and becomes a convoluted exercise of excessive complexity which, moreover, prevents unit managers from doing any thinking: their time is consumed in efforts to comply with a vast array of requirements dictated from above.

Much of the negative attitude that has developed concerning this activity has its roots in unnecessary bureaucratic impositions on the one hand and unreliability because of rapid change a few months out.

TYPES OF BUDGETS



The two dominant forms of budgeting are traditional and zero-based.

- Business planning is usually a combination of the two. *Traditional* budgeting is based on a review
 of historical performance and then the projection of such findings to the future with modifications.
 If inflation is high, for instance, cost trends of the last several years are projected forward but
 with adjustments both for inflation and for projected growth or decline in business activity.
 Historical sales patterns, using established trends in sales growth, are projected; new sales from
 planned new product introductions are then added.
- Zero-based budgeting is the creation of a completely new budget from the ground up—as if no history existed. When using this method, the operation must justify and document every item of expenditure and income anew. Brand-new operations will utilize zero-based methods.
- In government planning, but only very rarely in business, performance budgeting is used as a third alternative. Under this method, the budget is fixed at the outset. The planning activity is to determine exactly what activities will be carried out using the allocated funds.
- Performance budgeting is sometimes used in the corporate setting when the advertising budget is arbitrarily set as such-and-such Shaswat L. Padalia, Mechanical performance budgeting to alloca Engineering, IITE, Indus University and media.

TYPES OF BUDGETS



 For the small business, different types of budgets can be drafted to monitor various f i n a n c i a l a s p e c t s o f t h e b u s i n e s s.

• **Operational budget** - An operational budget is the most common type of budget used. It forecasts and tries to pretty closely predict yearly revenue and expenses for a business. This budget can be updated with actual figures on a monthly basis and then you can revise your figures for the year, if needed.

• Cash flow budget - A cash flow budget details the amount of cash you collect and pay out. This is generally tallied on a monthly basis, but some businesses tabulate this weekly. In this budget, you track your sales and other receivables from income sources and contrast those against how much you pay to suppliers and in expenses. A positive cash flow is essential to grow your business.

• **Capital budget** - The capital budget helps you figure out how much money you need to put in place new equipment or procedures to launch new products or increase production or services. This budget estimates the value of capital purchases you need for your business to grow and increase revenues.



- Project planning is at the heart of the project life cycle, and tells everyone involved where you're going and how you're going to get there.
- The planning phase is when the project plans are documented, the project deliverables and requirements are defined, and the project schedule is created. It involves creating a set of plans to help guide your team through the implementation and closure phases of the project.
- The plans created during this phase will help you manage time, cost, quality, changes, risk, and related issues. They will also help you control staff and external suppliers to ensure that you deliver the project on time, within budget, and within schedule.
- The project planning phase is often the most challenging phase for a project manager, as you need to make an educated guess about the staff, resources, and equipment needed to complete your project. You may also need to plan your communications and procurement activities, as well as contract any third-party suppliers.



The purpose of the project planning phase is to:

- Establish business requirements
- Establish cost, schedule, list of deliverables, and delivery dates
- Establish resources plans
- Obtain management approval and proceed to the next phase



The basic processes of project planning are:

- Scope planning specifying the in-scope requirements for the project to facilitate creating the work breakdown structure
- Preparation of the work breakdown structure spelling out the breakdown of the project into tasks and sub-tasks
- Project schedule development listing the entire schedule of the activities and detailing their sequence of implementation
- Resource planning indicating who will do what work, at which time, and if any special skills
 are needed to accomplish the project tasks
- Budget planning specifying the budgeted cost to be incurred at the completion of the project
- Procurement planning focusing on vendors outside your company and subcontracting
- Risk management planning for possible risks and considering optional contingency plans and mitigation strategies
- Quality planning assessing quality criteria to be used for the project
- Communication planning designing the communication strategy with all project stakeholders



- The planning phase refines the project's objectives, which were gathered during the initiation phase. It includes planning the steps necessary to meet those objectives by further identifying the specific activities and resources required to com-plete the project.
- Now that these objectives have been recognized, they must be clearly articulated, detailing an indepth scrutiny of each recognized objective. With such scrutiny, our understanding of the objective may change. Often the very act of trying to describe something precisely gives us a better understanding of what we are looking at. This articulation serves as the basis for the development of requirements.
- What this means is that after an objective has been clearly articulated, we can describe it in concrete (measurable) terms and identify what we have to do to achieve it. Obviously, if we do a poor job of articulating the objective, our requirements will be misdirected and the resulting project will not represent the true need.
- Users will often begin describing their objectives in qualitative language. The project manager must work with the user to provide quantifiable definitions to those qualitative terms. These quantifiable criteria include schedule, cost, and quality measures. In the case of project objectives, these elements are used as measurements to determine project satisfaction and successful completion. Subjective evaluat Shaswat L. Padalia, Mechanical ic attributes. 25

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Risk Management Planning



- Even the most carefully planned project can run into trouble. No matter how well you plan, your
 project can always encounter unexpected problems. Team members get sick or quit, resources
 that you were depending on turn out to be unavailable, even the weather can throw you for a
 loop (e.g., a snowstorm).
- You can use risk planning to identify potential problems that could cause trouble for your project, analyze how likely they are to occur, take action to prevent the risks you can avoid, and minimize the ones that you can't.
- A risk is any uncertain event or condition that might affect your project. Not all risks are negative. Some events (like finding an easier way to do an activity) or conditions (like lower prices for certain materials) can help your project. When this happens, we call it an opportunity; but it's still handled just like a risk.
- There are no guarantees on any project. Even the simplest activity can turn into unexpected problems. Anything that might occur to change the outcome of a project activity, we call that a risk. A risk can be an event (like a snowstorm) or it can be a condition (like an important part being unavailable).

Risk Management Planning



• When you're planning your project, risks are still uncertain: they haven't happened yet. But eventually, some of the risks that you plan for do happen, and that's when you have to deal with them.

There are four basic ways to handle a risk.

- Avoid: The best thing you can do with a risk is avoid it. If you can prevent it from happening, it definitely won't hurt your project. The easiest way to avoid this risk is to walk away from the cliff, but that may not be an option on this project.
- Mitigate: If you can't avoid the risk, you can mitigate it. This means taking some sort of action that will cause
 it to do as little damage to your project as possible.
- Transfer: One effective way to deal with a risk is to pay someone else to accept it for you. The most common
 way to do this is to buy insurance.
- Accept: When you can't avoid, mitigate, or transfer a risk, then you have to accept it. But even when you
 accept a risk, at least you've looked at the alternatives and you know what will happen if it occurs. If you can't
 avoid the risk, and there's nothing you can do to reduce its impact, then accepting it is your only choice.

Risk Management Planning



- By the time a risk actually occurs on your project, it's too late to do anything about it. That's why you need to plan for risks from the beginning and keep coming back to do more planning throughout the project.
- The risk management plan tells you how you're going to handle risk in your project. It documents how you'll assess risk, who is responsible for doing it, and how often you'll do risk planning (since you'll have to meet about risk planning with your team throughout the project).
- Some risks are technical, like a component that might turn out to be difficult to use. Others are
 external, like changes in the market or even problems with the weather.
- It's important to come up with guidelines to help you figure out how big a risk's potential impact could be. The impact tells you how much damage the risk would cause to your project. Many projects classify impact on a scale from minimal to severe, or from very low to very high. Your risk management plan should give you a scale to help figure out the probability of the risk. Some risks are very likely; others aren't.

The Enterprise Risk Management Process



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Risk Management Process

- Managing risks on projects is a process that includes risk assessment and a mitigation strategy for those risks. *Risk assessment* includes both the identification of potential risk and the evaluation of the potential impact of the risk.
- A risk mitigation plan is designed to eliminate or minimize the impact of the risk events—occurrences that have a negative impact on the project. Identifying risk is both a creative and a disciplined process.
- The creative process includes brainstorming sessions where the team is asked to create a list of everything that could go wrong. All ideas are welcome at this stage with the evaluation of the ideas coming later.

Risk Identification



- A more disciplined process involves using checklists of potential risks and evaluating the likelihood that those events might happen on the project.
- Some companies and industries develop risk checklists based on experience from past projects. These checklists can be helpful to the project manager and project team in identifying both specific risks on the checklist and expanding the thinking of the team.
- The past experience of the project team, project experience within the company, and experts in the industry can be valuable resources for identifying potential risk on a project.

Risk Identification



- Identifying the sources of risk by category is another method for exploring potential risk on a project. Some
 examples of categories for potential risks include the following:
- Technical
- Cost
- Schedule
- Client
- Contractual
- Weather
- Financial
- Political
- Environmental
- People
- You can use the same framework as the work breakdown structure (WBS) for developing a risk breakdown structure (RBS). A risk breakdown structure organizes the risks that have been identified into categories using a table with increasing levels of detail to the right.
- The people category can be subdivided into different types of risks associated with the people. Examples of people risks include the risk of not finding people with the skills needed to execute the project or the sudden unavailability of key people on t Shaswat L. Padalia, Mechanical 32
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- After the potential risks have been identified, the project team then evaluates each risk based on the **probability that a ris**k event will occur and the **potential loss associated** with it. Not all risks are equal. Some risk events are more likely to happen than others, and the cost of a risk can vary greatly. Evaluating the risk for probability of occurrence and the severity or the potential loss to the project is the next step in the risk management process.
- Having criteria to determine high-impact risks can help narrow the focus on a few critical risks that require mitigation. For example, suppose high-impact risks are those that could increase the project costs by 5% of the conceptual budget or 2% of the detailed budget. Only a few potential risk events meet these criteria. These are the critical few potential risk events that the project management team should focus on when developing a project risk mitigation or management plan. Risk evaluation is about developing an understanding of which potential risks have the greatest possibility of occurring and can have the greatest negative impact on the project.



- There is a positive correlation—both increase or decrease together—between project risk and project complexity. A project with new and emerging technology will have a high-complexity rating and a correspondingly high risk.
- The project management team will assign the appropriate resources to the technology managers to ensure the accomplishment of project goals. The more complex the technology, the more resources the technology manager typically needs to meet project goals, and each of those resources could face unexpected problems.
- Risk evaluation often occurs in a workshop setting. Building on the identification
 of the risks, each risk event is analyzed to determine the likelihood of
 occurrence and the potential cost if it did occur. The likelihood and impact
 are both rated as high, medium, or low. A risk mitigation plan addresses the
 items that have high ratings on both factors—likelihood and impact.



- Not all project managers conduct a formal risk assessment on a project. One reason, was a low understanding of the tools and benefits of a structured analysis of project risks.
- The lack of formal risk management tools was also seen as a barrier to implementing a risk management program.
- Additionally, the project manager's personality and management style play into risk preparation levels. Some project managers are more proactive and develop elaborate risk management programs for their projects.
- Other managers are reactive and are more confident in their ability to handle unexpected events when they occur. Yet others are risk averse, and prefer to be optimistic and not consider risks or avoid taking risks whenever possible.



- On projects with a low-complexity profile, the project manager may informally track items that may be considered risk items.
- On more complex projects, the project management team may develop a list of items perceived to be higher risk and track them during project reviews. On projects of even greater complexity, the process for evaluating risk is more formal with a risk assessment meeting or series of meetings during the life of the project to assess risks at different phases of the project.
- On highly complex projects, an outside expert may be included in the risk assessment process, and the risk assessment plan may take a more prominent place in the project implementation plan.



- On complex projects, statistical models are sometimes used to evaluate risk because there are too many different possible combinations of risks to calculate them one at a time.
- One example of the statistical model used on projects is the Monte Carlo simulation, which simulates a possible range of outcomes by trying many different combinations of risks based on their likelihood.
- The output from a Monte Carlo simulation provides the project team with the probability of an event occurring within a range and for combinations of events.
- For example, the typical output from a Monte Carlo simulation may indicate a 10% chance that one of the three important pieces of equipment will be late and that the weather will also be unusually bad after the equipment arrives.



• After the risk has been identified and evaluated, the project team develops a risk mitigation plan, which is a plan to reduce the impact of an unexpected event.

• The project team mitigates risks in various ways:

- 1. Risk avoidance
- 2. Risk sharing
- 3. Risk reduction
- 4. Risk transfer
- Each of these mitigation techniques can be an effective tool in reducing individual risks and the risk profile of the project. The risk mitigation plan captures the risk mitigation approach for each identified risk event and the actions the project management team will take to reduce or eliminate the risk.

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Risk Mitigation



- **1 .Risk avoidance** usually involves developing an alternative strategy that has a higher probability of success but usually at a higher cost associated with accomplishing a project task.
- A common risk avoidance technique is to use proven and existing technologies rather than adopt new techniques, even though the new techniques may show promise of better performance or lower costs. A project team may choose a vendor with a proven track record over a new vendor that is providing significant price incentives to avoid the risk of working with a new vendor.
- The project team that requires drug testing for team members is practising risk avoidance by avoiding damage done by someone under the influence of drugs.



- **2. Risk sharing** involves partnering with others to share responsibility for the risky activities. Many organizations that work on international projects will reduce political, legal, labour, and others risk types associated with international projects by developing a joint venture with a company located in that country.
- Partnering with another company to share the risk associated with a portion of the project is advantageous when the other company has expertise and experience the project team does not have.
- If a risk event does occur, then the partnering company absorbs some or all of the negative impact of the event. The company will also derive some of the profit or benefit gained by a successful project.

Risk Mitigation



3. Risk reduction is an investment of funds to reduce the risk on a project.

On international projects, companies will often purchase the guarantee of a currency rate to reduce the risk associated with fluctuations in the currency exchange rate.

A project manager may hire an expert to review the technical plans or the cost estimate on a project to increase the confidence in that plan and reduce the project risk.

Assigning highly skilled project personnel to manage the high-risk activities is another risk-reduction method. Experts managing a highrisk activity can often predict problems and find solutions that prevent the activities from having a negative impact on the project.

Some companies reduce risk by forbidding key executives or technology experts to ride on the same airplane Shaswat L. Padalia, Mechanical Engineering, IITE, Indus University



- **4. Risk transfer** is a risk reduction method that shifts the risk from the project to another party.
- The purchase of insurance on certain items is a risktransfer method. The risk is transferred from the project to the insurance company.
- A construction project in the Caribbean may purchase hurricane insurance that would cover the cost of a hurricane damaging the construction site.
- The purchase of insurance is usually in areas outside the control of the project team. Weather, political unrest, and labour strikes are examples of events that can significantly impact the project and that are outside the control of the project team.

Contingency Plan

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- The project risk plan balances the investment of the mitigation against the benefit for the project. The project team often develops an alternative method for accomplishing a project goal when a risk event has been identified that may frustrate the accomplishment of that goal. These plans are called contingency plans.
- The risk of a truck drivers' strike may be mitigated with a contingency plan that uses a train to transport the needed equipment for the project. If a critical piece of equipment is late, the impact on the schedule can be mitigated by making changes to the schedule to accommodate a late equipment delivery.
- Contingency funds are funds set aside by the project team to address unforeseen events that cause the project costs to increase. Projects with a high-risk profile will typically have a large contingency budget.
- Although the amount of contingency allocated in the project budget is a function of the risks identified in the risk analysis process, contingency is typically managed as one line item in the project budget.

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Contingency Plan



- Some project managers allocate the contingency budget to the items in the budget that have high risk rather than developing one line item in the budget for contingencies.
- This approach allows the project team to track the use of contingency against the risk plan. This approach also allocates the responsibility to manage the risk budget to the managers responsible for those line items.
- The availability of contingency funds in the line item budget may also increase the use of contingency funds to solve problems rather than finding alternative, less costly solutions.
- Most project managers, especially on more complex projects, manage contingency funds at the project level, with approval of the project manager required before contingency funds can be used.

Project Risk by Phases



Project Risk by Phases

• Project risk is dealt with in different ways depending on the phase of the project.

1. Initiation

Risk is associated with things that are unknown. More things are unknown at the beginning of a project, but risk must be considered in the initiation phase and weighed against the potential benefit of the project's success in order to decide if the project should be chosen.

2. Planning Phase

Once the project is approved and it moves into the planning stage, risks are identified with each major group of activities. A risk breakdown structure (RBS) can be used to identify increasing levels of detailed risk analysis.

Project Risk by Phases



3. Implementation Phase

- As the project progresses and more information becomes available to the project team, the total risk on the project typically reduces, as activities are performed without loss. The risk plan needs to be updated with new information and risks checked off that are related to activities that have been performed.
- Understanding where the risks occur on the project is important information for managing the contingency budget and managing cash reserves. Most organizations develop a plan for financing the project from existing organizational resources, including financing the project through a variety of financial instruments. In most cases, there is a cost to the organization to keep these funds available to the project, including the contingency budget. As the risks decrease over the length of the project, if the contingency is not used, then the funds set aside by the organization can be used for other purposes.
- To determine the amount of contingency that can be released, the project team will conduct another risk evaluation and determine the amount of risk remaining on the project. If the risk profile is lower, the project team may release contingency funds back to the parent organization. If additional risks are uncovered, a new mitigation plan is developed including the possible addition of contingency funds

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Project Risk by Phases

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4. Closeout Phase

During the closeout phase, agreements for risk sharing and risk transfer need to be concluded and the risk breakdown structure examined to be sure all the risk events have been avoided or mitigated. The final estimate of loss due to risk can be made and recorded as part of the project documentation. If a Monte Carlo simulation was done, the result can be compared to the predicted result.

Risk response planning



- The risk response planning involves determining ways to reduce or eliminate any threats to the project, and also the opportunities to increase their impact.
- Project managers should work to eliminate the threats before they occur. Similarly, the project managers should work to ensure that opportunities occur. Likewise, the project manager is also responsible to decrease the probability and impact of threats and increase the probability and impact of opportunities.
- For the threats that cannot be mitigated, the project manager needs to have a robust contingency plan and also a response plan if contingencies do not work.
- It is not required to eliminate all the risks of the project due to resource and time constraints. A project manager should review risk throughout the project. Planning for risks is iterative. Qualitative risk, quantitative risk, and risk response planning do not end ones you begin work on the project.

Risk Response Strategies



Risk Response Strategies

The choices of response strategies for THREATS include:

- **AVOID:** Focus on eliminating the cause and thus, eliminating the threat.
- **MITIGATE:** There are certain risks that cannot be eliminated. However, their impact can be reduced. This is termed as mitigation of risks.
- **TRANSFER:** Transfer the risk to some other party. Insurance purchases, warranties, guarantees, etc are examples of risk transfers
- The choices of response strategies for OPPORTUNITIES include:
- **EXPLOIT:** Add work or change the project to make sure the opportunity occurs
- **ENHANCE:** Increase the probability and positive impact of risk events
- **SHARE:** Allocate ownership of opportunity to a third-party

A response strategy for BOTH threats and opportunities:

- ACCEPT: Passive acceptance leaves action to be determined as needed, in case of a risk event. Active acceptance may involve contingency plans to be implemented if risk occurs and allocation of time and cost reserves to the project. A decision to accept risk must be communicated to stakeholders.
- **ESCALATE:** Risks which cannot be monitored and handled by the project are escalated to the upper level, for example to program management.

Risk Response Strategies



- Whenever the project manager is responding to threats or opportunities:
 - Execution of strategies must be time-bound
 - Effort selected must be appropriate to the severity of the risk
 - A single response can be an act of multiple risk events
 - A strategy can be selected not only by the project manager but also by the team, the stakeholders and experts
- Outputs Of Plan Risk Responses
 - Risk register, project management plans and project documents need to be updated as outputs of Plan Risk Responses.
- Project Management Plan Updates
 - Project Management Plan can be updated by new work activities/packages that could be added, removed, or assigned to different resources, thus, making planning an iterative process.

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Assignment - 2



- Q 1. What is Leadership ? How it is different from management ?
- Q 2. What is strategic planning ? Explain the strategic planning process.
- Q 3. What are the benefits of strategic planning ?
- Q 4. What is Budgeting ? Explain the budgeting as a process.
- Q 5. Explain the types of budgets ?
- Q 6. What is the purpose of the project planning phase ?
- Q 7. What are the basic processes of project planning ?
- Q 8. What is a risk ? Explain the four basic ways to handle a risk.

Assignment - 3



- Q 1. What is risk management Plan ?
- Q 2. Explain with a line diagram the Enterprise Risk Management Process.
- Q 3. Explain risk Identification.
- Q 4. Explain risk assessment.
- Q 5. What is risk mitigation ?
- Q 6. How the project team mitigates risks?
- Q7. Explain project risk by phases.
- Q 8. Explain risk response strategies.