Effective Risk Management via Early Warning Signal System and Procedures

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Abstract

At any point in time in any organization there are multiple programs being executed, each one at a different stage of execution and operating at a different level of maturity and proximity to the finish line. To determine the right candidates for review and interventions by the senior management a risk based prioritization model can be effectively established. Not only will this model help divide the senior mgmt. time effectively among those that warrant attention but also help in risk bubbling at the right time towards the right focus areas proactively.

Content

In general Risk Management can be defined as the practice of *identification, assessment, and prioritization of risks followed by coordinated effort and resources to minimize, monitor, and control the probability and/or impact of unfortunate events and/or to maximize the realization of opportunities*. If the identification is done proactively it can drastically bring down both the resources required to monitor and control and also the probability or impact of the unfortunate event as an outcome.

To identify risks proactively a framework for intercepting "*Early Warning Signals*" (EWS) based on different dimensions & metrics applicable at each stage of the project has been explained below. These EWS are triggers which point towards potential discontinuities / disruptions to the project progress and hence need to be arrested on priority by means of adequate review and controls.

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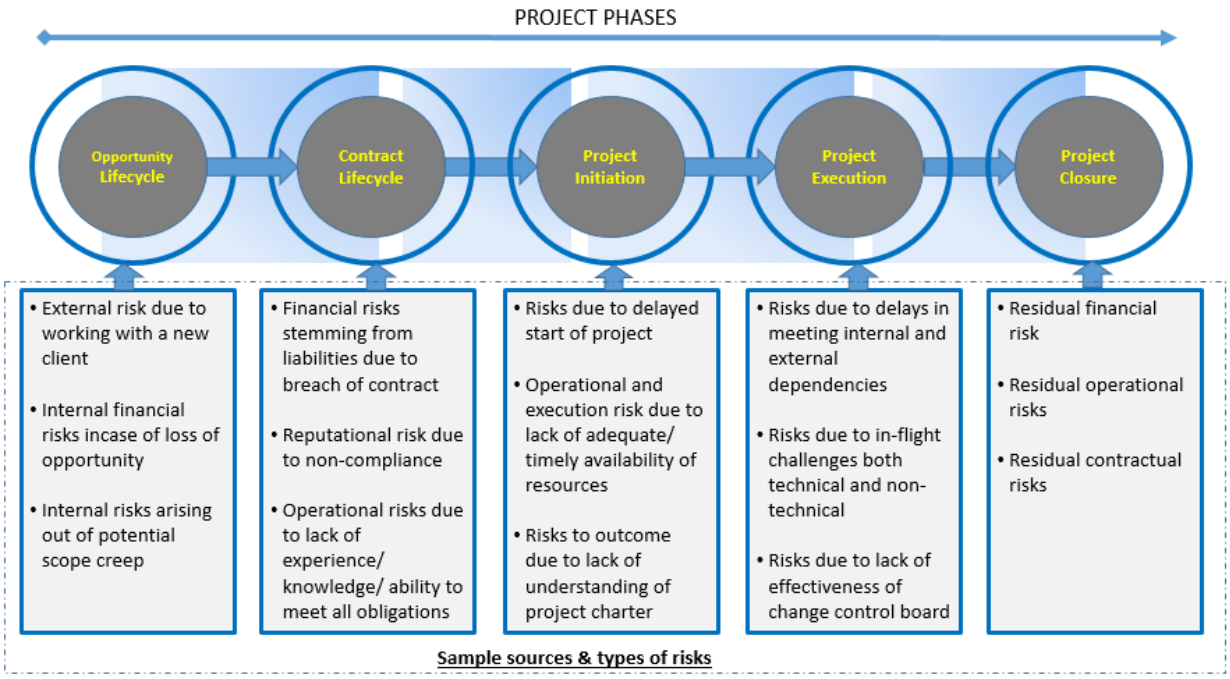


Risk identification can be done at each phase of the project using a risk profiling tool. This profiling tool is a multiple option questionnaire across several dimensions which help determine the risk exposure of the project. Several in-flight metrics can also be built into the model along with this subjective profiling to determine the risk exposure. Some of the suggested metrics are % deviation in schedule, % deviation in cost, % deviation in effort, team satisfaction score, client satisfaction score, etc.

The output of this profiling tool along with the metrics values can be used to determine a composite risk exposure score and determine the final positioning of the project on the Risk Heat-map. The set of dimensions and metrics available can differ from one phase to another and can have different thresholds for their scores. It is also important to seek views of all relevant stakeholders at each phase to get a 360 degree view of the project.

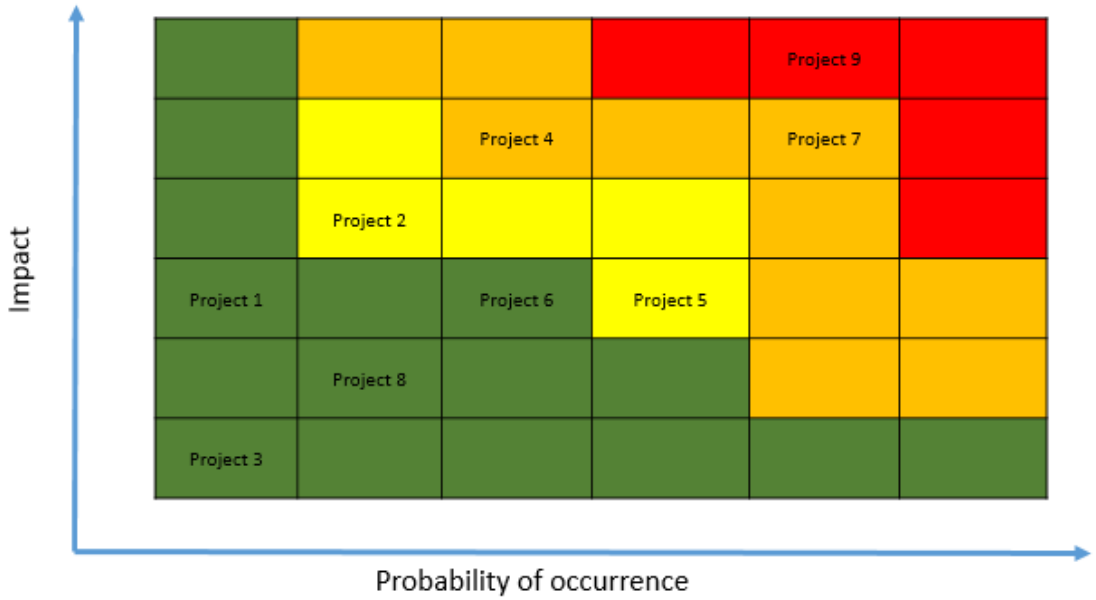
	Opportunity Lifecycle	Contract Lifecycle	Project Initiation	Project Execution	Project Closure
SCOPE	Have all the in-scope and out-of-scope items been understood and agreed before creating the solution?	Have all the out of scope items been called out in the statement of work clearly and signed off?	Has the team been apprised of all in-scope and out-of-scope activities?	Are there any scope creeps which may impact the overall project plan?	
FINANCE	Is there a clear understanding of the in-scope and out-of-scope items to draw up a confident estimate on cost?	Does the contract have any clause which accounts the service provider for unlimited financial liabilities?		Are there any cost creeps which are impacting the margin beyond control?	Have all pending invoices been raised and paid for by the client?
CONTRACT		Does the contract expect us to work with any 3rd party vendor which we have not partnered with before?		Is performance against all committed SLAs being monitored and reported as per contract?	Have all deliverables been accepted and signed-off as per contract?
RESOURCE			Have all the required hardware and software licenses been procured?		Have all the common pool resource licenses been relinquished back to the pool?
PEOPLE			Have all the necessary skills been identified and plan available for on-boarding?	Is there a back-up plan for each critical team member?	Have the team members been identified for the required for early life support?
TIME	Is there a clear understanding of the in-scope and out-of-scope items to draw up a confident estimate on timelines?	Are there any SLA's wrt meeting milestones which maybe difficult to meet?	Is there adequate buffer planned in the critical path?	Are there delays in interim milestones which are on the critical path?	

A sample snap-shot of project risk exposure across the dimensions may look like below:

Parameter	Project 1	Project 2	Project 3	Project 4	Project 5	Project 6	Project 7	Project 8	Project 9
Scope									
Finance									
Contract									
People									
Time									
Resource									

Depending on the project's criticality, phase of execution, metrics values and other characteristics of the project their composite risk exposure score can be determined and they can be recommended for periodic senior management review or additional governance both internally and with the client.

These projects can also be positioned on the risk heat-map based on their composite score as below:



Depending on the position of the project on the Risk Heat-map projects can be selected for senior management review and risk bubbling at the organization level.

Hence by building and placing probes which cut across the different dimensions and phases of the project an Early Warning Signal" system can be built to allow for in-time action for effective risk management.

Conclusion

To conclude it is prudent to put probes and controls in place to be able to identify and handle risks better throughout the lifecycle of the project. The idea is to uncover as many events which may have a likelihood of impacting the project outcomes negatively, in order to make any necessary mid-course corrections. Such unfavorable events can be predicted with close watch on project metrics and risk exposure across the different dimensions. The tools that can used include risk profiling, risk heat-map, metrics dashboard etc.

"Good Risk Management fosters vigilance in times of calm and instils discipline in times of crisis." - *Dr. Michael Ong*

References

https://en.wikipedia.org/wiki/Strategic_early_warning_system

About the Author

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Priti Vaid, with close to 17 years of experience in IT industry, has played varied roles with a top IT service provider; globally reputed and founded in India. Apart from software development and program management experience she has keen interest and rich experience in Program delivery Risk Management. She has been one of the key players in design and deployment of a Heat-map based risk identification, analysis and prioritization tool. This tool not only helps to identify risks but also helps to bring to focus the right logical entities requiring additional attention by the senior management. She strongly believes in the statement "*The only alternative to risk management is crisis management*".

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