**How to Manage Project Risk: A 5-Step Guide**

*The risk management process includes five-steps: identify, analyze, evaluate, treat, and monitor. You can mitigate risks by avoiding, accepting, reducing, or transferring them.*

**What is risk management in project management?**

In project management, **risk** is any potential event that can impact your project, positively or negatively. **Risk management**is the process of identifying and dealing with these events before or as they happen. Risk can come in many different forms—employee sickness, inclement weather, unexpected costs, and transportation delays among them.

No project is without risk. The ability to shepherd a project through risk is therefore one of the most important skills project managers are expected to have.

Risks commonly affect the following aspects of a project.

* **Budget:**Risk can shift the amount of money you need to complete a project.
* **Schedule:**Schedules and timelines can face delays or unexpected changes.
* **Scope:**Initial goals can expand or shift away from a project’s original intentions, leading to scope creep.

Risks can also have the following characteristics:

* **External risk:**An external risk is a risk outside of the control of the project team. These can include, for example, a contracted vendor missing deadlines or inclement weather.
* **Internal risk:**Internal risks are risks that a project team can control. Some examples include project members not meeting deadlines or inaccurate budget estimates.
* **Positive risk (opportunity):** Not all risks are bad. A positive risk, also known as an opportunity, is an unexpected event that can have a good effect on your project. The results of positive risk might include finishing tasks earlier than expected or under budget, or outperforming original goals. Positive risks might happen due to internal factors, like team members becoming more efficient with the help of a new tool, or external factors, like a policy change that aids your project.

**How to manage project risk**

You’ll want to understand a typical risk management process and risk mitigation strategies. The risk management process will help you plan for and anticipate risks, and mitigation strategies will give you tools to deal with them if they do happen.

**Risk management process**

The risk management process, or lifecycle, is a structured way of tackling risks that can happen in your project. Though you’ll find some slight variation, the risk management process, or lifecycle, generally follows the following steps. This process can be used for both positive and negative risks.

**1. Identify risks**

The first step to getting a grasp on potential risks is to know what they are. In this step, you’ll identify individual risks that might affect your project by making a list (or spreadsheet) of risks that might arise. Examples of common project risks include implementing a new technology program for the project, having a poorly defined project objective or deliverable, and not having adequate measures to protect the health and safety of project team members.

Use your own project management expertise and consult similar past projects to see what challenges you might expect. You’ll also want to have stakeholders, team members, and subject matter experts generate ideas with you; they may have insight into the field that you’ve overlooked.

**2. Analyze potential risk impact**

In the risk analysis stage, you’ll explore the probability of each risk occurring, as well as the potential impact each risk will have on your project. You could begin putting this list of risks in a **risk register**—a chart that lays out each risk, followed by information like priority level and mitigation plans. You can record both qualitative and quantitative information.

**3. Assign priority to risks**

In this stage, you’ll assign priority to risks by using the probability and impact of each risk to determine their risk levels. This means assigning each risk a high, medium, or low priority based on the factors you’ve determined. Evaluating your risks gives your team the chance to see where to focus their energy in mitigating risk.

**4. Mitigate risks**

Come up with a plan to mitigate each risk. We’ll go into how you can treat risks in more detail below. Record these plans in your risk register as well.

**5. Monitor risks**

In the last step,set up a process to monitor each risk as your project begins. You can do this by assigning team members to keep an eye on specific risks and mitigate them. This makes sure you’ll have a constant sense of where the risks are and how likely they are to happen, so you'll be ready to tackle them if they do occur.

**Risk mitigation: The process of dealing with risks**

The risk management process lays out a path for you to deal with risks before they happen. But what are the actual ways you can mitigate them? Avoid, accept, reduce, and transfer are four common ways to mitigate risk. Deciding which step to use for each risk isn’t an exact science, and you’ll have to use your judgement and expertise to determine which is best. Here’s some more detail and guidance on each mitigation tactic.

**1. Avoid**

Not all risks can be avoided, but it can be a good idea to do so when you can. Avoid a risk if there is a high chance that a risk will happen. Has a partner vendor gained a reputation for providing low-quality work? Try to find a different one. Are you event-planning during the rainy season? Move the event indoors, or to a sunnier season.

**2. Accept**

Accepting risks can make sense if they have a low chance of happening and will have low impact on your project. Ultimately if the risk does happen, it shouldn’t derail your project. Say you’ve ordered sunflower arrangements for a wedding reception, but the florist says there’s a small chance they won’t have enough and will have to replace some with tulips. Since the probability of risk is low and having tulips instead of sunflowers won’t upend the wedding, you might accept the risk instead of troubling yourself to find a new florist.

**3. Reduce**

Reducing risk means changing elements in your plan to minimize the risk’s probability of happening or potential impact on your project. Medium and high risks are good candidates to try and reduce. Reducing usually requires some effort or investment. For example, a project manager could hire new team members if the team is falling behind on work.

This might also mean including risk reduction tactics in your project plan. **Time buffers** for complex or time-sensitive tasks can allow you some flexibility if work starts to fall behind. Having a **contingency budget**can help absorb unexpected costs if they arise.

**4. Transfer**

Transferring risks entails shifting the risk to another party outside of your project. This can mean obtaining an insurance policy, or outsourcing parts of the work to a third party. The risk might still occur, but the direct impact to your project will be absorbed by somebody outside of your project.

Risk management is an important part of project management because risk is almost inevitable in any project. Don’t worry—it’s rare to ever completely eliminate risk.