

Risk Management:

7 Steps to Making The Right Decision Every Time

Step 1. ID project tasks. When you begin a new project, it is usually large and complex. You have to break it down into individual tasks.

Step 2. ID hazards. Look for anything that can go wrong in terms of equipment, environment and personnel.

Step 3. Assess risk. Determine the potential adverse consequence associated with every hazard. The formula for risk is simple.

Risk = Severity X Probability X Exposure

Severity: What's the worst that could happen?

Rate this on a scale of 1 to 5, where 1 is negligible and 5 is catastrophic.

Probability: How likely is it that this event will happen?

Rate this on a scale of 1 to 5, where 1 means that the possibility of this happening is very remote and 5 means that it is very likely to happen.

Exposure: Instead of a window of opportunity, think of this as a window of adversity. How long is it open?

Rate this on a scale of 1 to 4, where 1 means the window is open for only a very brief period of time and 4 means that it is open the entire time of the task, or almost the entire time.

When you have the numbers for Severity, Probability and Exposure, Multiply them to get your value of Risk. The smallest number you can get is 1 and the largest is 100.

A number less than 20 means you have low risk. But, don't be fooled into believing that this guarantees success. You rarely get a guarantee in life. If the number is greater than 50, you have high risk and this should cause you great concern.

Step 4. ID options. Start by looking at all tasks that have high risk. Can you perform a different task to accomplish the same goal? Is it possible to use different equipment or personnel so that you can reduce the Probability or Exposure, which will then lower the overall Risk?

Step 5. Evaluate benefit vs. risk. There are 3 simple, but important criteria.

- Never accept unnecessary risk.
- Never accept unacceptable risk.
- Never accept a project if the benefit does not outweigh the risk.

Step 6. Execute the plan. Some people make a good faith effort to employ some of the principles of risk management but, unfortunately, they stop here. Risk Management is a continuous process and the...

Step 7. Monitor the situation. I have conducted a number of accident investigations and reviewed many case studies. And, I found that some people developed a great Plan 'A'. But they didn't monitor the situation, or if they did, they didn't recognize that the situation had changed; or if they did recognize it, they ignored it. You may have a great Plan 'A' but it isn't going to work well in situation 'B'. You must monitor the situation and develop Plan 'B' if necessary.