



PROJECT MANAGEMENT SOFTWARE REVIEWS • 11 MINUTES

4 Key Characteristics of Risk Explained (+ Examples)

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Key Takeaways

- ✓ The four key characteristics of risk include probability, impact, source, and backfire date.
- ✓ Project risks are the result of several factors. They can be situational, time-based, interdependent, magnitude-dependent, or value-based.
- ✓ Understanding the characteristics of risks, where they come from, and how they can affect your project is the key to mitigating their impact.

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What is Project Risk Management?

Project risk management involves dealing with different types of risks. While these risks tend to vary significantly in terms of severity and importance, they can generally be grouped according to the four key characteristics of risk: probability, impact, source, and backfire date.

4 Conventional Characteristics of Risk

All risks share common characteristics. Categorizing specific risks according to these generalized groups—or according to a **risk assessment matrix**—not only makes it easier to prevent them from happening, but it also makes the consequences easier to handle if they do occur.

Here are the four characteristics of risk explained.

Probability

Risk probability describes the likelihood that an event (risk) will happen. According to the **Project Management Institute**, more than 50% of all projects experience some type of scope creep. This means that more than half of your projects will suffer the same issue at some point during the typical project lifecycle.

But there are steps you can take to minimize the probability of certain risk events. Planning ahead, accurately forecasting resources, and assembling an experienced project team are all great measures when trying to reduce risk probability. For best results, you need to analyze each specific risk through effective [risk analysis tools](#) and create a plan to tackle each one.

Impact

Risk impact refers to the possible outcomes or consequences of a risk event. Say your project does experience scope creep, how much damage will it cause? Will it cause the team to miss important deadlines or exceed the allocated budget?

Answering questions like these is the first step to mitigating risk impact. In cases where you can't eliminate the probability of a risk occurring, the next best thing to do is minimize its effects. For most PMs, this means having a backup plan in case something does go wrong.

Source

Project risks can come from all directions, so it's helpful to assign a tangible source to every single one. Keep in mind that multiple risks can originate from a single source. In the same vein, certain risks may originate from more than one source. For novice PMs and project team members, this is one of the more complicated and confusing steps in the risk management process. Thankfully, there are numerous [diagrams and techniques](#) you can use to make this step a little easier.

It's often helpful to assign each risk to one or more categories. Some potential risk categories include:

- Internal
- External
- Operational
- Organizational
- Technological
- Cost
- Legal



Depending on the project, you might have even more—or fewer—sources of risk. The key is to consider all potential risk sources and categorize them appropriately.

Backfire date

A project's backfire date represents the day when the consequences of a risk event become unavoidable. In other words, it's the date when a potential risk turns into a guaranteed issue.

The project's due date shouldn't be conflated with the backfire date. A project's due date is simply the day that the project's deliverables or parts of them need to be finalized. Once these deliverables are submitted, you will likely be moving on to the next project or, in the case of a multi-phased project, the next phase, regardless of any risks that have or haven't occurred.

For teams that want to avoid the negative consequences of their various project risks, the backfire date provides a countdown for them to heed. If that date is ultimately reached, it's time to begin dealing with the consequences.

Reasons Project Managers Encounter Risk

Project managers encounter risks for a variety of reasons. In some cases, these risks are a direct result of changes in the overall situation. Other times, risks are based on deadlines, personal or corporate values, or other risks. Understanding the different characteristics of risk as well as the reasons PMs encounter them are important to be able to properly categorize, prioritize, and delegate project-specific risks between team members.

Situational

Situational risks occur as a direct result of the current situation or as the result of a change in the current situation. Common examples include:

- **Replacing a team member:** While subordinate project team members can be replaced with little effort, the process of hiring a new project manager or team leader isn't as easy. In cases like this, the changing situation presents numerous risks.
- **Undergoing an organizational restructuring:** Most organizations plan organizational restructuring and renovation projects during their downtime, but this isn't always the case, especially in the case of a recent merger or acquisition.

- **Changing the scope of a project:** Often referred to as scope creep, this occurs when the project's requirements are suddenly changed, either by the project team or by the client.

Time-based

As the name implies, these risks are tied to a specific date, time, or event. Some of the most common time-based risks include:

- **Finishing a project by the end of the month:** Most projects have a hard due date for the final project deliverables. Failing to meet this due date poses numerous risks, such as going over budget, losing future business, and more.
- **Attending an important meeting after lunch:** It's important to maintain communications with key stakeholders throughout the project lifecycle. While it's generally okay if you're a few minutes late to a meeting, completely missing the event could result in your key stakeholders losing confidence in the project altogether.
- **Training enough new hires before the next project starts:** If you don't have enough project team members, you'll have little choice but to recruit and train new hires to meet your needs. If not, you might not have enough manpower to finish the project before its due date.

Interdependence

Most projects consist of a series of individual tasks and activities that, when finalized and pieced together, form the final project deliverable. In some cases, however, certain tasks might rely on the completion of other, related tasks. Failure to complete the first activity could result in immediate failure of the second, which could spark a domino effect across your entire project.

Interdependence risks can be kept at a minimum through strategic project planning and risk analysis. By identifying related tasks ahead of time and prioritizing them in the proper order, skilled PMs can easily avoid many of these risks.

Magnitude-dependent

In some cases, the amount of risk involved is dependent on the magnitude of its potential consequences. While you might be running the risk of missing your project due date, for example, it's only a big deal if you're working on a time-sensitive project. If you aren't under a strict obligation to produce the final project deliverables before this date, you

can probably get away with running a little behind schedule. In other words, the magnitude of the risk isn't that high.

Value-based

Other risks are value-based. These risks are directly affected by corporate, cultural, or personal values. For an example of this, consider the act of scheduling a project around a team member's religious beliefs. If they're a crucial part of your project team, it might not be as simple as replacing them during a religious leave of absence. In this situation, the best approach is to work around their personal values.

Value-based risks are more common when working with a global workforce. While a localized or domestic staff might also pose some value-based risks, these are often forecasted well in advance. If your team includes members from several different countries and multiple nationalities, however, their preferred holidays and sabbaticals might not be so readily apparent.

3 Examples of Risk Characteristics in Project Management

To help you better understand the various characteristics of risk and their impact on project management, we've included some common examples below. Although these specific risks might not be applicable to your current project, they provide useful insights into project risks in general. They're also helpful when providing detail to teammates who ask, "What are the characteristics of risks in the [field of project management?](#)"

Scope creep

Often referred to as feature creep or requirement creep, this term refers to project-specific requirements that change and evolve over time. Scope creep can originate from the novice team members or from picky clients who can't decide what they want.

Consider a new website design project. Before starting, you take a moment to consult with the client and gather their requirements. Not only do they clarify their expectations and preferences, but you also set a hard launch date for 30 days from now. When it's time to turn in the project for their review, the client suddenly has a list of new features they want added. However, they're unwilling to budge on the website launch date, which

is quickly approaching. This is considered scope creep, and it's one of the quickest ways to diminish the productivity of nearly any project team.

But there are some steps you can take to help avoid scope creep.

- Documenting project requirements at the start of the project
- Maintaining clear communications with your clientele
- Using milestones to give clients the opportunity to periodically review your work
- Establishing a specific procedure for revision requests

Depending on the project or client, you might not be able to eliminate scope creep completely. You can, however, use the above tips to mitigate its effect.

Legal and compliance risk

Depending on the project, certain **legal and compliance risks** might be applicable. Are you currently in a contract dispute with one or more of your project's subcontractors? Does your project fail to meet local laws or statutory requirements? If so, then you're probably already familiar with some of the contractual and regulatory risks in the field of project management. However, these aren't the only legal risks to worry about.

Legal risks don't always stem from the project or even from your employees. Sometimes, they arise from end-users or customers. Typically considered litigation risks, these project risks arise when your company has, in one way or another, caused damage to another party. This could be the result of the action or inaction of a specific employee, personal injury caused by a defective or dangerous product, or even false advertising.

Compliance risks are a result of your company's failure to abide by applicable laws, rules, or standards. Many compliance risks can be avoided completely, either by working with a legal team or by using compliance software to track the evolving laws and regulations of today.

External hazards

Risks can originate from outside of your project too. Known as external hazards or risks, these are beyond the control of project leaders and their team members. Some common external hazards in the field of project management include:



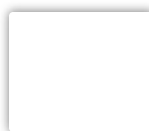
- **Governmental policies:** While some of these will double as legal or compliance risks, new or updated governmental policies can result in unexpected restrictions or limitations that could hamper your project's success.
- **Power outages from extreme weather:** Extreme weather events like storms, floods, earthquakes, and tornadoes can wreak havoc on local infrastructure and, in some cases, result in extended power outages that will hamper your team's daily productivity.
- **Market demand:** Fluctuations in supply can result in higher prices for raw goods and materials, while diminishing demand for a product or service can render your latest project moot.
- **Labor shortages:** Just like fluctuations in supply and demand can affect your project, so can fluctuations in labor availability. Stopgap solutions include hiring temporary labor or outsourcing certain project needs, like compliance, but PMs who experience repeated labor shortages will need to address the root of the problem.

External risks and hazards can originate from anywhere outside of your project. Your best defense is to implement a thorough analysis and [risk mitigation process](#) at the beginning of each new project.

Bottom Line

Project managers who fully understand the [key characteristics of risk](#) tend to fare better when tackling difficult, complex, or otherwise risky projects as opposed to those who aren't familiar with the principles of risk management in general. Not only do the top PMs know how to categorize, prioritize, and delegate these key risks efficiently, but they also understand how each risk has the potential to affect their current project—for better or worse.

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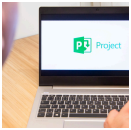
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