6. Project Management

Teacher edition

Ent-teach

6. Project Management

1. The project management process

2. Risk Management

Review

Self-Assessment questions

Answers to Self - assessment questions

Introduction

Project management it is about setting clear goals, managing time, material, people and costs to deliver a result on time, within budget and to the highest possible standard.

It is an essential element to managing a growing business. It is composed of several different types of activities, namely;

- **planning** (i.e. identifying requirements and targets and setting clear goals)
- **scheduling** (i.e. coordinating activities from inception to completion and identifying deadlines and resources)
- **controlling** (i.e. monitoring progress and ensuring it is completed on time, within budget and to required quality standards)

Each of these activities must be effectively managed to ensure the success of an individual project as well as the overall business.

This unit focuses on the important topic of project management for start-up companies. It emphasises the importance of putting a systematic process in place from the outset. The unit illustrates and explains a generic project management process. The unit concludes with a discussion on **risk assessment** and management in an effort to help minimise a venture's exposure to risk.

Learning objectives

When you have successfully completed this unit you will be able to:

- Determine the importance of using effective project management techniques in new ventures and start-up companies
- Explain the project management process
- Discuss the concepts of risk assessment and risk management
- Present simple tools to help minimise a venture's exposure to risk

1. The project management process

By following a structured approach to project management, an entrepreneur can increase the likelihood of success. If the entrepreneur has a clear understanding of what they are doing and why, and if the organisation has an established mechanism in place to initiate and undertake innovation, development can happen quickly and predictably.

Where such infrastructure is not in place, it has to be put in place for each initiative. This slows down the reaction-time of individuals in the company, and may limit the success of the project, as there is no pattern to follow and the process has to be re-invented each time. Thus the results are not always predictable.

The benefits of project management methods include:

- Ensures that the company meets customers' wants, needs and expectations
- Allows the company to do more work in less time with fewer people
- Standardises routine project work and eliminates 'reinventing the wheel'
- Ensures that people complete all tasks on time, within budget and to the highest possible standards
- Reduces duplication of effort and rework as well as power struggles

In light of this, entrepreneurs must identify and integrate the most valuable and successful ways to plan and develop effective projects. This ensures that the venture is focused on where it wants to be in the future.

The remainder of this section sets out the key stages in the project management process and discusses them in more detail.

1.1 Define scope, strategy and goals

This stage of the project management process ensures that the founder and his/her team have a clear view, image or vision of where the business will be in the future. In other words, it encourages the entrepreneur or decision maker to create a clear picture of the desired outcome and communicate this vision to all relevant stakeholders in the process.

A strategy is a coherent or consistent stream of actions which an organisation takes to move towards this vision. The organisation's goals should be linked to its strategy. They should be specific, well defined and measurable so that people know exactly what to accomplish. This stage also prompts you to establish the scope of the project in question. This should detail what the project will cover as well as what it will not cover.

1.2 Plan project and select sponsor

A project's outcomes are largely decided in the early stages of the project management process; in other words in the stages that precede the actual implementation or execution of the project. Ironically, these activities often receive little attention. Yet, comprehensive project planning significantly increases new product success and is strongly correlated with financial performance.

It is at this point in the process that costs start to rise dramatically as resources for development are needed. Therefore, it is imperative to plan appropriately from the outset. Assigning a sponsor (normally a senior member of the organisation) is also essential for successful results. The sponsoring manager has a pivotal role in the process. This person must be responsible and accountable for the success of the project. It is their responsibility to initiate the project and to ensure that adequate resources are allocated to it.

1.3 Prioritise project design and assign teams

Projects require a substantial investment in terms of resources such as time, money and personnel, all of which are limited. Therefore, it is vitally important that the projects that are selected for implementation provide good returns on the resources and capital invested. This process helps to eliminate projects that require extensive resources but are not justified by current business strategies. It also helps to position projects so that efforts can focus on the critical few.

Following this decision, the individual project will have time schedules and budgets put in place. Specific teams are then assigned to individual projects and management should strive to appoint a well-balanced team in terms of composition and mix.

1.4 Monitor and control performance

The project's progress must be continuously monitored to assess its performance relative to its goals and schedule. Actions may have to be altered in order to keep in line with goals developed from the outset. This stage involves recognising warning signs and problems, identifying their cause and then applying the appropriate treatment or remedies. Continuous feedback and on-going training should be provided for all team members in order to sustain their energy and enthusiasm.

2. Risk Management

Risk is the potential harm or negative effect that may arise from some future event. Risk can therefore be defined as a function of these components. Generally speaking, risk comprises the probability of a negative event occurring with how harmful that event would be.

Risk = *ƒ* (event, probability, impact)

Risk assessment refers to the identification, analysis and prioritisation of the level of risk in a project.

It involves measuring two elements of risk

- the **magnitude** of the potential loss, and
- the **probability** that the loss will occur.

Risk assessment may be the most important step in the risk management process and therefore should be carried out at the project selection stage. However, it is also the most difficult step in the process and prone to error and there is often a high degree of uncertainty in the assessment of measurement of both these elements.

Also, risk management would be simpler if a single metric could embody all of the information in the measurement. However, since two quantities are being measured, this is not possible. A risk with a large potential loss and a low probability of occurring must be treated differently than one with a low potential loss but a high likelihood of occurring.

Once the company has identified and assessed the risks, the steps to properly deal with them are much more systematic and methodical. Table 1 is a useful tool to use to help capture these critical data.

	Probability of Occurrence			Magnitude of Damage			Planned Action	
Activity	Low	Medium	High	Low	Medium	High	No Action	Type of Action

Table 1: Risk Analysis Chart

Risk management is the process of assessing or measuring risk and then developing appropriate strategies or corrective actions to manage the risk.

It is a continuous process. It starts as a strategy when the project is being established and continues during the life cycle of a project until it is completed. Risk management includes several processes that, although shown as discrete elements here, are highly interrelated. These are:

Identification
Determine which risks are likely to affect the project and document the characteristics of each.

Quantification
Evaluate the probability and consequences of risks and risk interactions on the possible range of outcomes to a project so as to examine and develop alternative options.

Mitigation
Use techniques and methods for the reduction and control of risks or the enhancement of opportunities.

Control
Usually the strategies employed include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

The final decision may be linked to the tolerance an entrepreneur or project manager has for risk. Therefore the manager's tolerance to risk must be explored in more detail. The three commonly used classifications for risk include

- the risk averter or avoider
- the neutral risk taker
- the risk seeker

6. Project Management

Review

Effective project management is essential for all organisations, especially growing ventures and small firms. This unit focused on the important topic of project management for start-up companies. The unit presented a simple four-step project management process.

Project management it is about setting clear goals, managing time, material, people and costs to deliver a result on time, within budget and to the highest possible standard.

The stages in this process include:

- define scope, strategy and goals,
- plan project and select sponsor,
- prioritise project and assign teams, and finally
- monitor and control performance.

The unit concluded with a discussion on risk management. It presented a simple methodology to help minimise a venture's exposure to risk.

Self-Assessment Questions

1. Why is it important to use effective project management techniques in new ventures and start-up companies?

Answers to Self-Assessment Questions

1. Some of the benefits of implementing effective project management techniques in new ventures and start-up companies include:
   (a) They ensure that the company meets customers' wants, needs and expectations,
   (b) They allow the company to do more work in less time with fewer people,
   (c) They standardise routine project work and eliminate 'reinventing the wheel',
   (d) They ensure that people complete all tasks on time, within budget and to the highest possible standards and
   (e) They help to reduce duplication of effort and rework as well as power struggles.