



## THE INS AND OUTS OF RISK MANAGEMENT

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The term GIGO is famous as an abbreviation for the phrase “Garbage In Garbage Out”. Originally used in the IT industry, it described the fact that the output from a computer system was only as good as its input. Even the best program cannot take meaningless data and produce meaningful results. Of course GIGO applies much more widely than just computers. The integrity of the output from almost every system or process depends on the integrity of its input – with the possible exception of the human brain, which seems able to create order out of chaos by the application of reasoning and intelligence (at least sometimes!). And “Garbage In Garbage Out” can certainly apply to the risk management process.

A recent variant on GIGO translates it into “Garbage In Gospel Out”. This describes the tendency of people to accept output from a system without judging it critically. Even if the input is rubbish, we still believe the result, usually because we don’t fully understand the way the system works to produce it. This is sometimes called “blind faith”. “Garbage In” to the risk process can mean lack of agreed objectives, poor or lazy risk identification, or use of inappropriate risk responses. “Gospel Out” means treating outputs as infallibly true, with no need for interpretation or judgement.

There is of course a third meaning for GIGO – “Gospel In Garbage Out” – where the system takes good data but introduces errors or makes wrong calculations, and so produces nonsense results. In the risk process this often arises from lack of time, attention or resources for risk management, the use of inappropriate tools or techniques, or lack of risk skills.

How can risk management avoid these three GIGO problems? The third is perhaps easiest to

address, since “Gospel In Garbage Out” can be avoided by using a sound risk process, together with staff training and proven tools.

Both “Garbage In Garbage Out” and “Garbage In Gospel Out” can be tackled by applying two filters to the risk process :

- *Verify the input.* This means asking questions about the data fed into the risk process. Is it complete? Is it up to date? Can we trust it? Is it influenced by bias, assumptions or a limited perspective? Is it accurate? Is it relevant? And most importantly – is it true?
- *Validate the output.* Here we are checking the results of the risk process to see if they make sense. Do the outputs match expectations (and if not, why not)? Are they counter-intuitive (and if so, why)? Is there a clear trend from previous results? Can we double check using other approaches? And can we act on the results with confidence?

Of course verification is not a simple task because input to the risk process is inevitably uncertain. It involves subjective judgements about what the risk is, how likely or severe it might be, and what responses are appropriate. But we should still ensure that input data quality is as high as possible.

And although risk outputs may sometimes be surprising or counter-intuitive, they should always make sense if the underlying risk process is sound. We should not be afraid to challenge assumptions and test outputs before we use them as a basis for decisions and actions.

So verifying input (“Is it true?”) and validating

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**PRESIDENT'S MESSAGE BY ED MILLER, PMP**

Last year was another great year to be a leader of our chapter. While many PMI components have been severely challenged due to the weakness in the U.S. economy, the New Jersey Chapter has continued to thrive. Considering our good fortune, we hosted a regional meeting of PMI leaders in July. Over forty leaders representing twelve chapters attended. This forum allowed us to discuss common challenges and best practices.

Our 2003 chapter accomplishments include:

- Membership – We have grown to over 3,000 members (with over 1,200 PMP's) and are currently the largest of the more than 220 chapters worldwide.
- Dinner Meetings – The average attendance has increased and we have had several meetings with over 230 attendees. Most attendees now use the on-line registration feature which we initiated last year.
- NJ Annual Symposium – Even with the sluggish economy, last May's symposium was a great success – in terms of both attendance and attendee feedback.
- PMP Exam Prep Course – We provide this course three times each year with the support of volunteer instructors from our membership. Because it was regularly sold-out, we increased

the capacity from 30 to 50 students.

- Newsletter – Our newsletter has been expanded and improved. We are interested in continuing the improvement and encourage our members to submit articles.
- NJ Chapter Website (www.pminj.org) – Our website is regularly updated with current chapter information and provides our past program presentations.

Thanks to all our volunteers for making 2003 another year to be proud of.

What's next? Here are initiatives that we hope will lead to accomplishments in 2004:

- Additional Meetings – We want to try out some meetings that are smaller and more focused than our regular dinner meetings. A NJ Chapter IS group has been formed and held an IS-specific meeting in December, 2003. We hope to organize other meetings in 2004.
- Additional Meeting Locations – If we can organize additional meetings, we can pro-

vide better coverage of our large service area.

- Survey Follow-Up - We had an excellent response to our membership survey and a committee has been formed to follow-up and to offer suggestions for chapter improvement.
- Employer Involvement – We are initiating an Executive Advisory Committee in order to establish an advisory relationship with the upper management of our members' organizations.
- Joint Ventures – We want to strengthen our relationships with adjacent PMI chapters and try joint programs with other professional organizations.

We are members of an outstanding professional organization with many opportunities to make it even better in 2004. Please get involved!

**THE INS AND OUTS OF RISK MANAGEMENT (CON'T)**

*(Continued from page 1)*

output ("Does it make sense?") can protect against the perils of GIGO. These dangers are real but they can be overcome, and they should not stop us from using risk management on our projects or in our business. After all, there is one thing worse than GIGO, and that is NINO : "Nothing In Nothing Out"!

To provide feedback on this Briefing Note, or for more details on how to develop effective risk management, contact the Risk Doctor (info@risk-doctor.com or visit the Risk Doctor website www.risk-doctor.com.

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**PRACTICAL BUFFER ALLOCATION BY HAROLD NICKEL, PMP**

**A Summary of the What, When and How -To of Buffer Management.**

Merriam-Webster defines a buffer as

**1** : any of various devices or pieces of material for reducing shock or damage due to contact

**2** : a means or device used as a cushion against the shock of fluctuations in business or financial activity

**3** : something that serves as a protective barrier

These definitions serve well in project management where buffers are used to cushion and/or protect against damage to the business benefits from unwanted circumstances, i.e. risks. Usually, these cushions are in the form of contingencies or reserves of time or funds.

While people may agree on the definition of a buffer, they generally have different ideas on how buffers should be used in a project. Should they be grouped at the end of the project? Should they be associated with each path? Maybe even with each task?

As with many project questions, the answer is, "It depends." There is no single way to use all buffers. This is because there is more than one type of buffer. What's good is that they can be divided into just 2 categories - specific and general.

A specific buffer protects against a single risk. A general buffer is one that is used to protect against a group of risks. Life insurance is a specific buffer. Medical insurance is a general buffer.

So, how do we decide which to use? And, how do we use each? To answer these questions, we need to take a look at the objective we want to achieve...cushioning risks.

**EVALUATE YOUR RISKS**

I characterize risks in terms of Clarity and Size. Clarity describes how much you know about the risk. Size describes how much it can hurt your project. In each case, the characteristic has 2 values.

Clarity can be either clear or unclear. If a risk is clear (C), it is well defined in what causes the risk (source), what triggers the risk, the impact to the project (type, not size) and who owns the risk. If any of those components are in question, the risk is unclear (uC).

Size can be either large (L) or small (s). Size reflects the expected impact to your project. A risk with a 5% probability that can double your cost, I would call large. A risk with 95% probability that can delay your schedule by 2 days, I would call small. Of course, that depends on how time and cost sensitive your project is.

If you like pictures (like me), here is what the categories look like.

	CLARITY	
SIZE	uC/L	C/L
	uC/s	C/s

One comment on why each characteristic only has 2 values. In 'The Karate Kid', the teacher tells the student, "Chicken walk on right side of the road, OK. Chicken walk on left side of the road, OK. Chicken walk in middle of the road, squish."

The purpose of identifying the characteristics of risks is to decide what type of buffer to use. Many times, in the crush

of trying to meet commitments, risks get pushed into a middle-of-the-road category. Then, squish.

Now that we have our risks grouped into uC/L, C/L, uC/s, C/s, the next step is to lump C/s and uC/s together. Why? You've got bigger fish to fry. Save your small fish for a general buffer and work on the big ones before they get away.

Then, review your uC/L's. If they are uC's, they need more of your time. If they are L's, they deserve more of your time. Investigate until you can decide if they are C/L or C/s. At this point, all your risks are either C/L's or small.

**DEFINE YOUR BUFFERS**

For each of the C/L's a contingency plan is defined that may include specific buffers. The size of the buffer is based on the impact, its probability and the project's sensitivity to the risk. The full impact may need to be buffered or some portion of it.

General buffers are used to cushion a group of tasks against small risks that do not require specific attention. The group of tasks to be cushioned can be those along a path leading to a critical time or cost touch-point. That could encompass the entire project.

In any case, the size of the buffer is calculated by accumulating the probable impacts of the associated risks. That is, for each task, multiply the impact of its risks by the probability of their occurring, and then add the results. Just make sure this buffer can cushion the largest impact.

Why? As an example, suppose you take 8 tasks, each with a 10% probability of failure that would extend your project by

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**PRACTICAL BUFFER ALLICATION (CON'T)**

*(Continued from page 5)*

60 days. Calculating the general buffer size for these tasks gives (60 days x 10%) x 8 tasks for a total buffer size of 48 days.

The flaw in this is that we have an 80% chance of at least one risk occurring (8 x 10%) with an impact of 60 days. So, unless we expand our reserve to at least 60 days, we have set ourselves up for failure. The correct buffer size, then, is at least 60 days.

**MANAGE YOUR PROJECT**

Now that we have defined our specific and general buffers, we can finally address how to manage them and, by association, your project.

Managing the specific buffers is easy. Track the associated risk. If triggered, manage the issue using the buffered reserve. If passed, cross it off your list. In either case, release its remaining reserve.

General buffers are somewhat more complex. Like the specific buffer, the reserves can be released once their related tasks are complete. But only after all the tasks are complete

Since each risk contributes only a portion of the reserve to the general buffer, releasing any part affects the ability to cushion every task. In the earlier example, if we released 1/8th (7.5 days) after each task, if only the last task fails, your project will be 52.5 days late. Not good.

On the other hand, if a risk is triggered, you must re-evaluate your general buffer size. In the same example, if the first task fails, it will use the 60 days reserved. Your buffer is now empty with a 70% chance of another failure. This buffer needs to be re-established.

**THE GOOD, THE BAD AND THE UGLY**

The characteristics of general buffers, reducing time to manage multiple, low impact risks and freeing time to concentrate on the critical risks, make them very attractive. Thus it becomes very tempting to take this to the extreme of creating one huge buffer at the end of the project to cover all risks.

The good part of such a strategy is that placing all your reserve into a single huge buffer minimizes your time to manage risks. It is less sensitive to impacts, giving you more time to react. And, you can track project health comparing actual to expected depletion.

The bad part is that a single buffer does not allow you to target critical risks. It does not allow you to release reserves once risks are passed. And, you may not be aware of a need to replenish your reserve until you reach the end of you project. If a lot of risk is triggered at some point, you may not be prepared.

The ugly is when you tack on a 20% reserve and call it risk management. That is like driving down a dark country road with no headlights. Your betting you can react to any obstacle you may encounter without planning. It's exciting right up to the point where you run off a cliff.

**IN SUMMARY**

Both specific buffers and general buffers have their uses. Specific buff-

ers cushion critical tasks and, so, are managed with those tasks. General buffers cushion groups of tasks and, so, are managed as though that group were a single task.

Both types require up-front risk analysis, planning, and a conscious decision as to how they should be managed. They are not a means to avoid or a short cut for risk planning.

Neither will keep risk from being triggered. But, once in place, with proper management, they are your air bag against injuries to your project.

\*\*\*\*\*

*Harold Nickel has over 25 years experience in software development and support. He has been an IT project manager performing process engineering and managing technical teams for 10 years. Since retiring from AT&T in 1998, he has been consulting full time.*

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**MATRIX TERRITORY BY PAULA K. MARTIN**

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Matrix management hasn't gotten much attention lately, but it's more important than ever. Almost all project managers must work in a matrix, whether or not their organizations are formally structured as one. Why? Because almost all projects cross functional boundaries – team members, customers and stakeholders all come from or reside in different functional areas. And, as soon as you cross functional boundaries, you are in Matrix Territory. How well prepared are you to survive in this difficult terrain? Do you have the supplies you need?

*Do you have the supplies you need to survive?*

In Matrix Territory, leaders must lead without authority. Work gets done outside the realm of the boss and subordinate relationship, a relationship that depends on authority to get things done. In Matrix Territory, there is no control over others. There is only control of oneself. There is no power over others, only the opportunity to empower.

So how does one accomplish anything in this strange and foreign land? By creating commitment and accountability for the work. And how does one do that? One does that, whether or not one has authority, through participation. When team members participate in planning, monitoring and controlling processes, they create more ideas and better, more realistic plans. They achieve a greater understanding of the big picture as well as the interdependencies between individual tasks; and as a result, are committed to the end goal. When a leader allows a team to truly participate, the team assumes ownership of the project. The problems that arise are their problems and so they work hard to solve them.

If the team is doing the planning and monitoring of the project, and if the members own the outcomes of the project, what is the new role of the project leader in Matrix Territory? A few of the key functions include:

1. Facilitator – The project leader facilitates the project management process, leading the team through the steps of creating and implementing a plan. He/she facilitates the team process, leading the team through the stages of forming, storming, norming, performing and mourning.
2. Ambassador – The leader is the primary ambassador to the world outside the project team. He/she is the liaison to the project customer and sponsor. He/she is also an ambassador to other stakeholders, such as resource managers. As an ambassador, his/her listening skills are as important as his/her negotiating skills.
3. Salesperson – It's important that the project leader sell the project in its initial stages and if commitment and enthusiasm wane, he/she must continue to sell the project to the outside world, assuming it makes sense to continue. If the project is no longer viable, the project leader becomes the salesperson for shutting it down.
4. Cheerleader – Just as outside commitment and enthusiasm can ebb and flow over the life of a project, so can the spirits of the project team if not properly supported and cheered on. Cheerleading means finding what's going right and focusing on the positive. It means recognizing individual and team accomplishments. It means celebrating successes and learning from losses.
5. Meeting Leader – The project

leader needs to design the meetings so they will be effective and efficient, achieve the results desired, and take as little time as possible. When the meeting is over, he/she needs to gather feedback in order to continually improve the way his meetings are run.

6. Team Builder – A strong team, focused on a common goal, can accomplish just about anything. It's the project leader's role to build the team.

In Matrix Territory, the roles that are most important are those that address organizational and people issues. All of the roles require good communication skills. We spend an awful lot of time improving our technical skills but not enough time improving the softer skills – the skills that make the difference for most projects. So, as you venture into Matrix Territory with your next project, make sure your wagon is full of the kinds of skills and tools that will help you and your project survive. You don't want to get stuck at Donner Pass.

\*\*\*\*\*

*Paula Martin is the CEO of Martin Training Associates, a management training and consulting firm. Paula's talk on matrix management, Caught in the Cross-Hairs, was taped by the LI PMI Chapter and can be viewed at [www.iteampro.com](http://www.iteampro.com). For more information on matrix management, visit: [www.appliedmatrixmanagement.com](http://www.appliedmatrixmanagement.com).*

## 2004 PROJECT OF THE YEAR AWARD

The winner of this years 2004 Project Of The Year Award has been determined.

Virtual Corporation of Flanders, New Jersey has won for the Business Continuity Management Project they developed and implemented for Kaiser Permanente. Kaiser Permanente is the largest Healthcare Maintenance Organization (HMO) in the United States. They have over 90,000 employees, 11,000 physicians and 30 medical centers dedicated to serving it's members.

Kaiser, like many other large organizations, have become significantly dependent on technology to complete both complex tasks as well as very rudimentary ones. Senior management determined they needed to develop and implement a nation wide BCP (Business

Continuity Plan) in the event of various disasters.

The request for proposal went out and Virtual Corporation won the bid. Their goal/mission was to deliver to the customer service areas and regions the ability to design, implement and maintain their own BCP/DR Plans. They did so within budget, with quality and to the satisfaction of their customer, as attested to by Kaisers National Director of Business Continuity Planning. Kaiser also recommended Virtual Corporation for this years Project of The Year Award!

Our Chapter will be honoring Virtual Corporation and their combined project team at our annual POY award dinner this June.

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