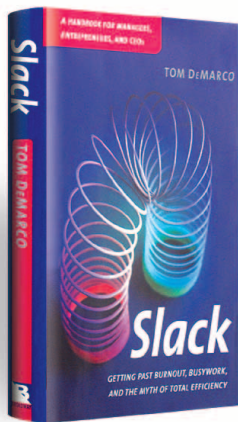


# SOUNDVIEW Executive Book Summaries®



By Tom DeMarco

## Getting Past Burnout, Busywork And the Myth of Total Efficiency

# SLACK

### THE SUMMARY IN BRIEF

*Change has become the organizational mantra in today's fast-paced and increasingly global marketplace. But too often this need to change and adapt is confused with keeping employees busy all of the time and achieving total efficiency.*

*Constant overtime and aggressive schedules are symptomatic of the "Hurry Up" organization. Efficiency is pitted against effectiveness, minimizing cost against minimizing time. Middle management has been squeezed so that there is less management and more "on task" efforts.*

*What gets lost in this "Hurry Up" organization is the time it takes to think up new procedures or products; in other words, slack. In today's knowledge-based economy, unlike the factory-based model of prior centuries, creative management of slack is essential for a healthy, growing organization. In this summary, Tom DeMarco explores some of the most common, die-hard management theories (Total efficiency, Management by Objective, Internal Competition) and shows how they are inappropriate for today's knowledge-worker-based economy. He then shows how to create productive slack in your organization.*

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### What You'll Learn In This Summary

- ✓ **To be truly agile, corporations must manage slack at all levels.** By sacrificing a little bit of efficiency, you can make your organization a lot more effective.
- ✓ **The true cost of stress on the organization.** Constant stress might cause your employees to work faster, but it doesn't mean they'll work smarter or get more done; in fact, they often react by slowing down.
- ✓ **How to become a learning organization.** The knowledge economy is here. Is your company a learning organization?
- ✓ **The importance of middle management.** Here is the crucial level where re-invention occurs.
- ✓ **Rethinking risk and risk management in the knowledge economy.** Risk is a given in today's fast-paced economy.

## — THE COMPLETE SUMMARY

### What's Wrong with Efficiency?

Not too long ago, efficiency was the catchword for defining the successful corporation. A project arrived on an employee's desk or station and he or she attended to it immediately. When finished, he or she immediately accepted the next piece of work. Efficiency experts were hired to fill in any gaps in workflows to assure employees were as productive as possible.

Today's economy is based on knowledge workers; their needs are fundamentally different from the factory work force, or even the office work force of more stable or predictable times. Forcing knowledge workers to conform to an overly efficient work flow system is detrimental to their effectiveness — and, eventually to the overall ability of a company to be as flexible as needed to meet the demands of a constantly changing, increasingly global market.

#### *The Task-Switching Penalty*

Here's one way overefficiency results in reduced effectiveness:

In a typical day, employees change tasks any number of times. With downsizing, fewer employees are expected to do more work, thus increasing the amount of daily task-switching. While fewer employees may look cost-effective at first glance, what is often overlooked is the true penalty that task-switching incurs with knowledge workers. Usually, this task-switching penalty is higher than any projected cost savings.

Take the example of a typical knowledge worker: a graphic artist. After a downsizing effort, her workload is increased from four to six projects at a time. Every project requires at least 10 minutes to physically prepare — getting the right materials, reviewing notes from the last group meeting, etc. Thus, the task-switching penalty for this person's work is 10 minutes.

Creative work also involves a few intangible phases, such as conceptualizing and immersion.

For example, imagine the graphic designer is conceptualizing an ad campaign or developing in her mind an interesting mix of images to convey a point. This process is interrupted as she is called on to do another task. Once she returns to her conceptualizing, how much time would she need to get back to the same point in her thinking? If she returns the next day, chances are she

will have to go through some of the same mental steps she went through today.

The *immersion* phase is another of these intangible phases. Immersion involves the time writers, researchers, inventors, analysts or programmers need to mentally prepare themselves for their work. Think of a salesman building up confidence before a big presentation, for instance.

Interruption of these intangible phases adds to the task-switching penalty.

#### *The Myth of Fungible Resource*

The reason task-switching penalties are ignored is because employees are seen as “fungible resources.” Fungible can be described as follows:

**fungible:** *adj.* (especially of goods) being of such nature or kind as to be freely exchangeable or replaceable, in whole or in part, for another of like nature or kind.

Money, for example, is fungible. If you take some of it out of one pile and put it another (say move it from “maintenance” to “groceries”), you do not lose anything in the transfer. Dollars out of maintenance equals dollars into groceries.

Employees, however, are different. Time taken from one task cannot be transferred to another task without losing something in the transfer.

In other words, people believe that a writer or graphic artist who is “busy” only 57 percent of the time has 43 percent of her time free to devote to other projects from different departments, for example. But knowledge workers aren't fungible. To do their work effectively, they

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### Benefits of Slack

- ✓ Flexibility that allows for ongoing organizational re-design
- ✓ Better people retention
- ✓ Better responsiveness of employees

### What's Wrong with Efficiency?

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need slack time to cover the task-switching penalties as well as the immersion and conceptualizing phases. The more tasks given to the employee, the more of the 43 percent in “free” time is lost in the transfers. ■

### Knowledge Workers Need Control Slack

Besides time slack, knowledge workers also require “control” slack. Unlike previous blue-collar work forces of a generation or two ago, today’s knowledge workers value challenges in their jobs as much as pay. They want to be constantly growing their careers (as well as their paychecks). Managers need to find ways (other than monetary) to motivate these workers. One way is to give them more control over their careers, or at least appear to.

Think of a non-profit institution. What motivates people to “work” for no pay? In many such situations, volunteers are given total control over projects. If they are micro-managed, they quit.

Of course, in commercial enterprises, managers need to assert some control. Some, but not all. Managers need to give some leeway to knowledge workers — and that means allowing time for experimentation, and, sometimes, mistakes.

Managers need to find ways to offer knowledge workers choices that will not only achieve the corporation’s goals, but also their own growth needs.

#### **Controls Encourage Busywork**

Many managers believe knowledge workers still need to be kept “on task.” Let’s look at how knowledge workers actually respond to factory-like efficiency controls.

Under such control models, workers are seen as individual stations along an assembly line of tasks. Information or parts move from one worker to another, each adding his or her own piece to the eventual finished product. One bottleneck in this assembly line slows others down.

But in today’s much more dynamic and fluctuating workplace, things are not as smooth or predictable as in

a factory. Deadlines or projects change direction halfway through, and work flows become uneven. Those with less work worry about being seen as less productive. To balance out the unevenness, knowledge workers actually slow down, so that they always have something to work on, or to “look busy” with whenever the boss happens to stroll by. ■

### What Human Capital is Worth

As mentioned earlier, knowledge workers have an intrinsic need for slack time for the conceptualizing and immersion process phases. Using slack to give knowledge workers room for these intangible needs is nothing less than an investment in your human capital. Without slack, your employees won’t have time to adapt to changes in the marketplace, and your company can lose its inventiveness.

In the knowledge-based economy, all employees matter. Of course not every employee is a star performer and some employees will always need to be re-assigned or even fired. But the costs in time and money of replacing any employee can be staggering.

Consider this formula to calculate the worth of your company’s human capital:

$$\text{Human capital} = (\text{Time to get up to speed} \times \text{Salary} + \text{Overhead}) \times 50\%$$

Imagine employee A announces he is leaving. You replace him with employee B, who needs six months to get to the same level that A was when A left. Your investment in B’s domain knowledge is 50% of 3 months’ worth of B’s salary and overhead. In other words, when A left, the company lost three-person months.

Extrapolated to show aggregate human capital over the long-term shows how damaging steady turnover can be. Existing employees must spend time teaching the new hires the routine, leaving less time for flexibility or slack in their own jobs. And if workers are constantly stopping their own work to help others, their frustration levels can lead them to leave. Thus, even when your non-star performers leave, the effect can be as damaging as when a star employee leaves. Everyone matters. ■

### The True Cost of Stress and Healthy Internal Competition

It’s not uncommon for workers today to be under enormous deadline pressures. Such “aggressive” schedules, which often lead to overtime on a regular basis, are meant to get results faster and cheaper, but what they mostly end up creating is unhealthy stress. Across the

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### The True Cost of Stress and Healthy Internal Competition

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organization, such constant stress results in reduced effectiveness, employee burnout and increased staff turnover. As the saying goes, “people under time pressure don’t think faster.”

#### ***Too Many Cooks...***

Although it’s easy to understand the stress understaffing places on the rest of a project team, overstaffing can be just as much a problem. How does this happen?

Let’s say top management has leaked an impossible deadline for a radically re-designed product that your department is in charge of producing. You know the deadline is a farce and try to convey this to your boss. Now you’re both in a bind. The usual solution you’re offered is twice the number of staff you actually need, to try and make up for the tight schedule.

This puts you in the position of the nine pregnant women in one room who still can’t produce a baby in one month. The early conceptual phases of a project take time — and, in fact, are better managed with just a few key people. More people doesn’t quicken the conceptual of a redesign — it just requires you to spend more time thinking up essentially busy work to occupy them.

#### ***Aggressive Deadlines Are Not a Sign of Success***

Managers need to accept responsibility for setting these aggressive deadlines. It’s become almost a rite of passage for managers to brag about the incredible deadlines they’ve made (or almost made).

However, there are detrimental effects of aggressive schedules. Today’s knowledge workers by definition spend a lot of their time thinking. Routinely staying late to meet an unrealistic deadline robs them not only of needed sleep, but also their own private time. Tired, grumpy employees just can’t think as sharply as well-rested employees. In fact, studies have shown that longer days (say 12 hours instead of 8) do not accomplish more than shorter ones. Stressed workers feel used and begin looking for new jobs.

#### ***Unhealthy Competition***

Finally, top managers need to look at what kind of competitive message they are sending to their middle and lower level managers. Do you encourage managers to compete against each other, or to combine their competitive efforts? By definition, knowledge work is collaborative. Rewarding individual managers based on their performance relevant to other managers sends a very non-collaborative message. Collaboration—and learning and reinvention—take time. In a knowledge-

### Characteristics Of a Culture of Fear

- ✓ It is not safe to voice doubts
- ✓ Goals are so aggressive that there is virtually no chance of achieving them
- ✓ Power trumps common sense
- ✓ The consequence for not “knuckling under” to aggressive schedules is ridicule and abuse
- ✓ Those who are fired are generally more competent than the people who aren’t
- ✓ Everyone is terrified of confronting their manager

based economy, “healthy” internal competition needs to go the way of the punch-clock.

#### ***Stressed Managers Aren’t Effective***

So much for stressed workers. What about stressed managers? Unfortunately, most of us have at one time or another witnessed a managerial tantrum—inappropriate, verbal abuse. Often it is just chalked up to “one of those things,” and no one confronts the manager. If this behavior is allowed to continue, it pervades the corporate culture and creates a fearful environment—a “Culture of Fear” (see box above). Needless to say, such a culture is extremely detrimental to productivity, effectiveness, flexibility and re-invention. And most of time, this culture evolves through aggressive schedules and other organization-wide stress. ■

### A Word About Litigation

One symptom of a “culture of fear” run amok is litigation. By one estimate, about one-tenth of U.S. corporations are involved in some sort of litigation — a situation that degrades morale among all employees (not to mention wasting time and money). A company involved in a court case doesn’t have time to spend on re-invention and innovation.

Often, litigation arises from a flawed contract that neither side should have agreed to in the first place. Healthy companies, on the other hand, know that allowing someone to fail in an effort is not the same as finding blame. Writing a good contract requires slack. Imagine two vendor companies with identical contracts, the only difference being that the cheaper one has eliminated any wiggle room (or slack) into the deadline. Ultimately, writing contracts that both sides feel good about signing is the aim. ■

## Management Models to Avoid

No one wants to operate in a culture of fear, but we all have pressures and deadlines. How we deal with these pressures determines what kind of atmosphere we create for our employees. In this section, we examine four common management models.

### *The First Law of Bad Management*

Consider the manager as a sense organ, always considering his or her effect on employees, and constantly adjusting his or her focus as needed. But unfortunately many managers approach their job from the opposite point of view — by imposing an external framework or “management model of the week.” If one model doesn’t seem to provide instant results, they assume the fault is with them and keep trying. It’s easier to keep trying something rather than to admit we failed. If we read a book about the great success of one management model, then we’ll do whatever it takes to get those same results at our companies. Thus we have *The First Law of Bad Management*: If something isn’t working, do more of it.

### *The Second Law of Bad Management*

Without any slack in your company, it is almost inevitable that managers will commit the second law of bad management: “Put yourself in as your own utility infielder.”

There is an almost unconscious belief that since managers do not directly perform any services or make any of the products for the customer, their role is “less essential” than others. But management does matter, and good management is the backbone of a healthy organization.

Management is not easy because it involves slippery issues such as interacting with people, motivating people, and resolving conflicts. Management is more nuance than science. Because of this, it is psycholog-

## Standardization Is Not an Answer

One study at Bell Laboratories set out to identify the work procedures of its best engineers. Specifically, the study sought to isolate the different work habits of the most effective engineers. Surprisingly, the study did not find that many differences in procedures. Where differences were apparent, though, was in how these star performers managed their network of connections. These star employees, for example, had their phone calls returned on an average of 20 minutes while other employees waited four hours.

By trying to standardize knowledge workers’ work procedures you focus too much on the mechanics of the task, rather than the rich connections that they have with their colleagues.

## When a Corporate Quality Program Goes Too Far

The dedication to quality movement (with close to \$1 billion a year in sales of conferences, books and seminars on quality, this model can certainly be called a movement) is unfortunately more bark than bite and has had the curious effect of making true quality harder to achieve. Why? Because quality takes time. Sadly, most corporate quality programs focus almost exclusively on eliminating product defects, and in doing so ignore other, perhaps more important attributes — such as uniqueness, usefulness and integrity. And to actually ensure real quality, companies need to scale back on quantity. What if a company ranked its products in terms of usefulness and only focused on those that were deemed the most useful? It is risky to challenge long-standing product lines.

The drawbacks of quality obsession can be summarized as follows:

- ✓ Defect prevention and removal efforts add too much overhead and time and become unresponsive to market trends.
- ✓ A new technology or process may at first be too defect-prone and thus abandoned instead of being used to create innovative new products.
- ✓ Anything deemed too risky may be squashed, leading to less and less creative re-invention.

cally soothing to step in as a “pinch hitter” for an employee here and there. We can relieve ourselves of the management challenge and do something with which we are familiar.

There is another reason why managers fall into the second law of bad management: safety. In organizations that have trimmed staff to the bare minimum, as well as ones that operate under a culture of fear, only work directly related to making product and bringing in revenue is safe.

### *Process Standardization*

Everyone benefits from product standardization. No matter which company manufactured our telephone, we can make and receive calls at will.

However, people — in particular, knowledge workers — are not products. Trying to standardize the procedures for knowledge workers is counterproductive and ignores the human capital value of knowledge workers. Taylorism, which grew out of Frederick Winslow Taylor’s 1911 book, *The Principles of Scientific Management*, set out to create “interchangeable parts” for the human aspect of factory work. Even within the

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### Characteristics of a Powerful Visionary Statement

To be effective, a Visionary Statement needs:

- ✓ **an element of present truth;**
- ✓ **an element of proposed future truth;**
- ✓ **to be balanced between what is and what could be, with the could-be part wonderful but not impossible.**

### Management Models to Avoid

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factory setting, however, examples abound of how manufacturing organizations have “gone beyond Taylorism.” One example is Volvo’s “team” configuration of workers. Each team follows one vehicle all the way through the production process, rather than each employee doing one specialized task on thousands of vehicles passing along an assembly line.

#### **Management by Objective**

Another popular management method (dating to the 1950s) is management by objective. In this model, individual departments within a corporation select a few quantitative measures, or objectives with which to gauge their success each quarter. Managers are responsible for moving each indicator toward a selected target. Each department’s objective is a piece of the overall organization’s strategic goals.

The problem with management by objective is that it is based on maintaining the status quo, and reaps only incremental changes. It also depends on stable market and business conditions, and in today’s business environment, something is always changing. Thus, if one department’s objective is to increase output, it may do so at the expense of another department — say human resources, which may face increased turnover due to the increased output. ■

### The Role of Slack In Change and Growth

Organizations can’t grow if they refuse to change. And while change is possible without learning, what would be the point. Change is often sparked by what you learned — and depends on new skills to become a reality.

More than anything, change, learning and growth require vision, leadership and timing. Slack is the lubricant that makes all of these possible.

#### **Vision**

If an organization hasn’t clearly articulated what it is and what it stands for, then it cannot change. It can only react to external changes. Vision is essential for a healthy, growing organization. Companies with a well-defined vision also tend to have a well-established culture, which is what Peter Drucker considers the foundation for any constructive change.

People want to be led, but they need to know where they’re going. Therefore, a powerful visionary statement, such as President Kennedy’s “Ask not what your country can do for you but what you can do for your country,” is essential for any meaningful change. The power of this statement is its implicit message that we are a country of achievers, that we are about doing what needs to be done.

#### **Leadership**

Crafting an effective visionary statement is only the first step of leadership. At its core, leadership is the ability to get people to sign on to your own agenda. And there is no one-size-fits-all formula for becoming an effective leader (but there are unfortunately lots of formulas for poor leadership!).

Because humans tend to be short-term thinkers, the challenge for leaders is to clearly define a long-term goal so that the short-term pain required for achieving it is seen as worthwhile.

Nokia offers a good illustration of effective corporate leadership. Throughout the 1950s this wood pulp and paper company had few acquisitions, such as transmission cable. Then in 1960 two of its engineers envisioned a future company in high tech—which is where the company is today. How was this achieved? By engaging every manager at Nokia to implement the necessary steps to transform their departments.

Top management orchestrated the overall direction, and gave encouragement. Part of this encouragement involved giving managers the slack they needed to lead their departments in new directions.

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### Give-and-Take Leadership

Companies that allow open give-and-take, including respectful disagreement, are in effect letting leadership be seen as a rotating function. Employees feel safe in sharing their inspirations. What these companies are doing is showing that they trust their employees, which is a very powerful gesture. What inevitably happens is that once companies give this trust, employees return the feeling of trust.

### The Role of Slack in Change and Growth

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#### Timing a Change Initiative

Even the best leadership can flop with poor timing. Corporations, like individuals, tend to resist change. In addition to following a set of sensible, step-by-step approaches, you need to time your change initiative carefully.

All too often, companies initiate change only when revenues start to decline. However, this is the worst time to try something new. Already, employees are feeling under pressure to improve productivity, and introducing new procedures will only heighten their anxiety. Instead, look further ahead to anticipate the slowing of a growth cycle, then introduce a change while employees are still experiencing success.

#### How Middle Management Makes Change Happen

Where does change happen? It doesn't happen at the top: Top managers may give the direction of change, but they are not involved in the day-to-day tasks that make it happen.

It doesn't happen at the bottom: Front-line employees don't have the overall perspective to reinvent — nor do they have the authority to carry out reinvention.

The answer: Change happens in the middle. The key role of middle management is to lead the company through change.

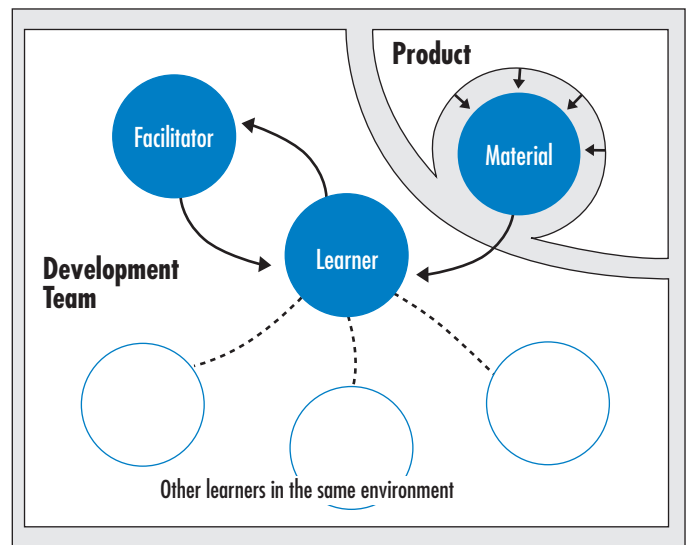
Middle management has mistakenly come to mean mindless bureaucrats doing nonessential tasks that merely maintain the status quo.

While change initiatives do need direction and support from the top office, if managers at the next level down are not empowered to work together or are not given the time to work on the change, change will wither on the vine.

Managers who are isolated and overworked on day-to-day tasks cannot lead change initiatives and help the company to reinvent itself. Companies need to allow some slack time for managers to devote to reinvention.

Or, to put it another way, those companies that flattened their hierarchies have flattened themselves in more ways than one.

To understand why slack time and the freedom to interact with other managers is so important to reinvention, we need to look at the core activity of reinvention: learning.



#### Where Learning Happens

Without learning, the organization cannot know what to change and how to change. Learning and change go hand in hand.

In companies, the team is an ideal configuration for creating a learning environment. Teams have common goals and objectives, and being in a group satisfies people's need for community.

The learning environment that a team supplies is shown above. It includes a facilitator or coach, material (a doable piece of project work carved off for you to learn on), and co-learners. Learning tends to happen best in an environment in which knowledge workers are learning together.

#### Learning Without Teams

The problem is that in many companies, managers are not learning in a team environment, but rather in isolation. While many new managers often are offered help in learning the mechanics of their job, most get no guidance in the areas that really matter: people selection and motivation, team jelling, listening, promoting and choosing correctly when to entrust new responsibility. After a one-week session of learning abstract concepts about management, the new manager is thrown back into his or her cubicle and expected to "manage."

This isolation of managers might be masked by the existence of the company's management "team." However, a management team is usually no team at all. Think about the format of your management meetings: Is it a working meeting, where issues get decided and directions are focused in a give-and-take among the managers? Or is it merely a "status" meeting, made up of individual managers taking turns talking to the boss?

Taking turns talking to the boss is not a team activity.

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### The Role of Slack in Change and Growth

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Real teams are given real responsibility — and accountability — for their actions. It is at this team level of middle managers where important organizational learning can happen, but only in an environment that encourages joint communication, participation and responsibility. ■

### Getting Comfortable with Risk

Without any risks, there would be no possibility of profits. Managing risks costs money, and spreading your risk tends to decrease the amount you need to spend to protect against it. But the problem for managers — as opposed to insurance executives — is that often your risk is concentrated in one project.

How much control do managers really have as to whether or not the project will be completed on time, come in on budget, or deliver enough value? You have only limited control over retaining the key employees through the projects' completion, for instance. And the tools you do have for controlling these other risks are by nature counterintuitive.

For starters, risk management asks you to quantify an uncertainty, and in most corporate cultures, managers are not allowed to be uncertain. By applying risk management techniques, however, you can better quantify the probability of certain risks occurring. Once you have considered all of the negative possibilities, you are better prepared to predict an accurate deadline.

The basics of any risk management approach must include:

- **Listing of each risk.**
- **A process for uncovering new risks.**
- **Quantification of each risk's potential impact and likelihood.**
- **Identification of a transition indicator, an “early warning” of a risk beginning to materialize.**
- **An action plan for coping with the materialization of each risk.**

This is a dynamic process, and includes elements of risk containment and mitigation.

#### Containment

Once an identified risk actually occurs, you need the flexibility to keep the project moving forward with minimal delays. If, for instance, your lead engineer leaves and you need to hire another, you draw on a risk reserve pool of funds for the hiring and training costs. This same reserve is drawn upon when unforeseen things

happen (i.e., such as a natural disaster or terrorist action). Having a reserve set aside at the beginning reduces the interruption time.

#### Mitigation

Even before a risk occurs, you need to prepare for it. If a fire breaks out, you'd need to have thought of purchasing and installing a fire extinguisher well before the actual event. Before beginning any project, you need to write a plan of action in case each risk actually materialized. Mitigation planning is essential to effective risk management.

Risk-taking has replaced maintaining the status quo in today's business environment. Business leaders must constantly be developing new markets or exploiting new technologies that will transform their companies into growth engines. If you can't identify and name the risks you face in each project, you may be practicing risk-avoidance.

Below is a checklist of questions to ask about your company's most important project. The answers you give will determine whether you are managing or avoiding risks.

#### Managing Risks

- 1. Is there a written list of risks?** Does it contain major causal risks and is it available to everyone working on the project?
- 2. Is there a method for discovering new risks?** Is it safe for employees to signal new risks?
- 3. Are any of the identified risks potentially fatal?** These are the ones that need your attention first.
- 4. Is each risk quantified as to probability and cost and schedule impact?**
- 5. Are there transition indicators identified for each risk, and are these indicators being monitored?**
- 6. Is there a single person responsible for risk management?** (Generally, assigning this responsibility to one person is more effective than dumping it on the entire group. When the group is responsible, it's too easy for each member to assume someone else is looking out for risks.)
- 7. Have you identified ‘conditional’ tasks on the breakdown structure?** This shows that you have considered the possibility of risks occurring, and have planned for it.
- 8. Have you split the project's goal and schedule?** Remember that the earliest date by which the work could be done makes an excellent goal but an awful schedule.
- 9. Is there a real possibility of finishing before the estimated date?** If not, the schedule is merely a goal, not an estimate. ■