

(RISK-1662) Using Stochastic Optimization to Improve Risk Mitigation

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- The authors would like to acknowledge John Cloward and Nathan Langton – conversations with them heavily influenced the topics covered within this presentation

LIMITATIONS OF CURRENT- GENERATION METHODOLOGIES

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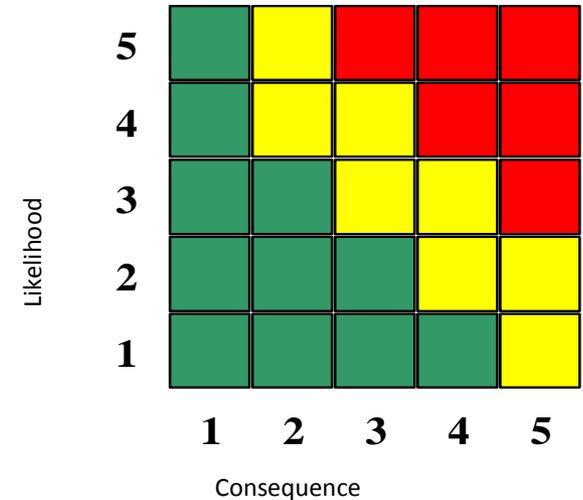
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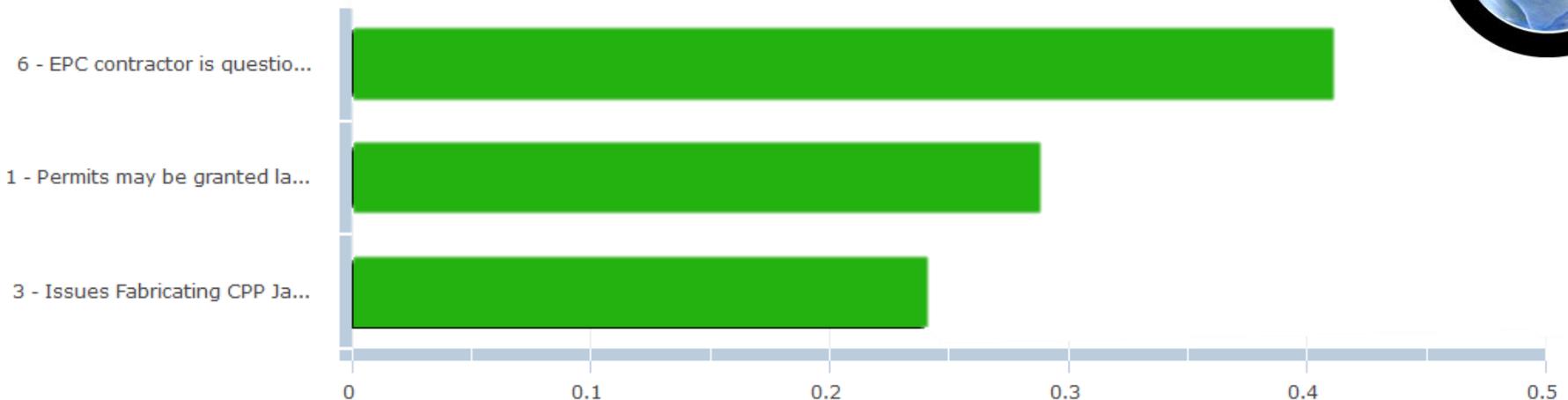
Limitations of the Risk Matrix Method



- Traditional risk management relies on the risk matrix to develop a probability-weighted metric for ranking risks for mitigation
 - The risk matrix uses a combination of the risk's likelihood of occurrence and impact or consequence to categorize the weight
- This method is of limited value due to a couple of shortcomings
 - First, the ranking's usefulness is largely dependent on the quality of the scale used to establish consequence
 - Second, both likelihood and consequence factors are typically developed by subject matter experts focusing only on the area of the project directly impacted by the risk – they ignore the risks downstream impact on cost and schedule
 - These shortcomings mean that, while the risk matrix provides a concise quick-look assessment of risk, it should be used to rank risks on only the most simplistic projects

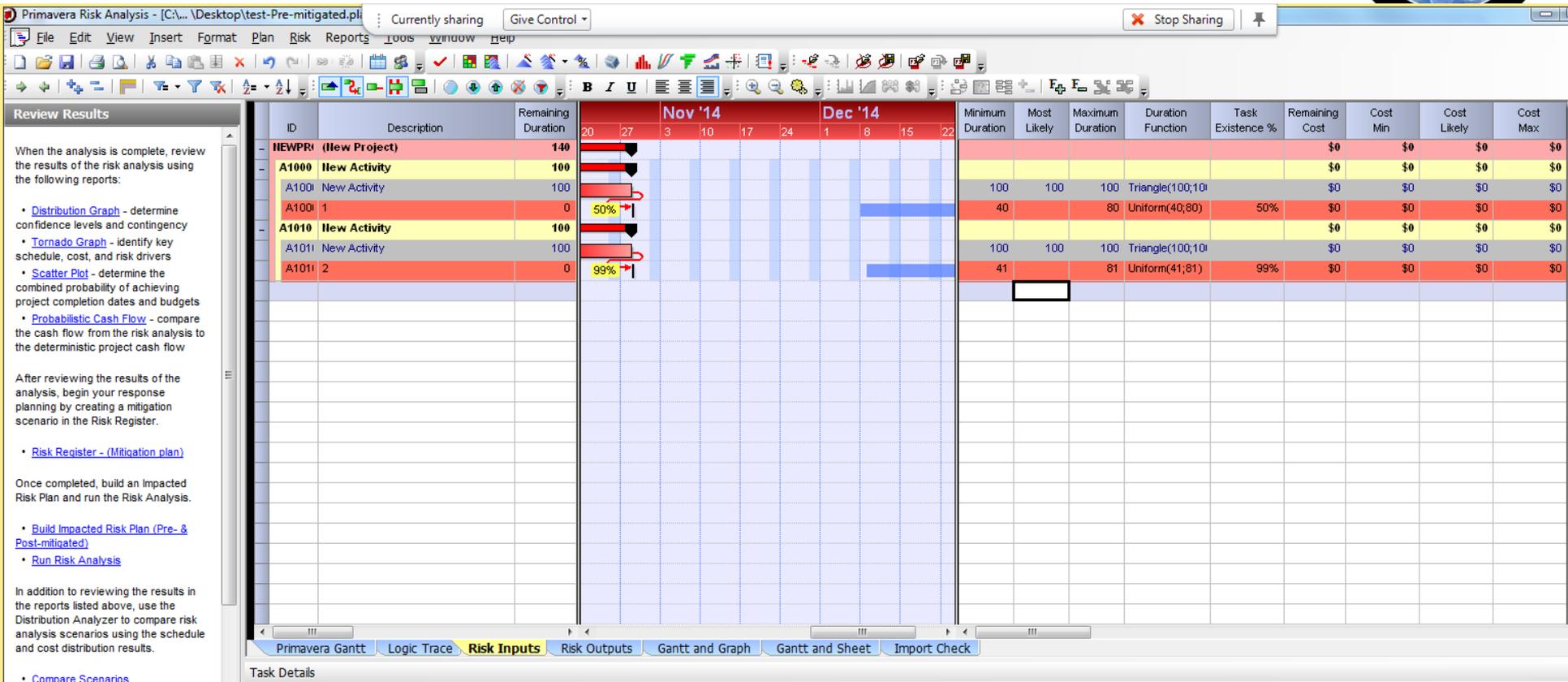


Limitations of Sensitivity Analysis Methods



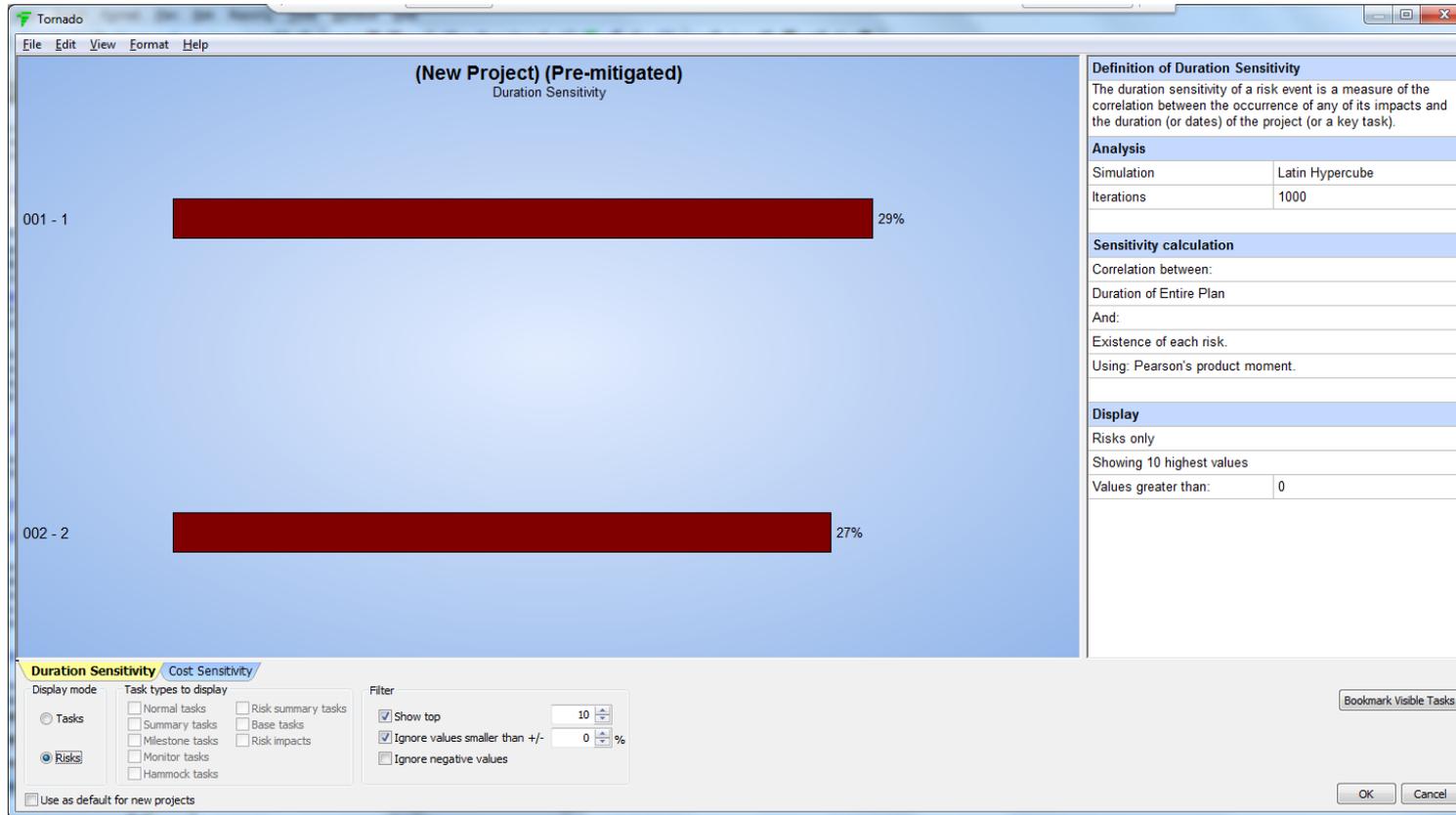
- To address challenges with the risk matrix method, some analysts build simulation models and rank risks using sensitivity analysis metrics
 - Most simulation models capture samples from each distribution for each iteration of the simulation and then correlate these to the final cost and schedule
 - To rank risks, a regression line is drawn across this data and the correlation between the risk occurrence and final cost and schedule are calculated and plotted on a bar chart
- This methodology also has limitations
 - Correlation is an unreliable metric for prioritizing discrete events
 - The correlation metric is “unitless” (not measured in dollars or days), and therefore difficult for decision makers to understand
 - Attempts to convert from this unitless metric to tangible metrics (\$’s and days) requires an assumption of normality which is explicitly violated when analyzing discrete risks
 - This approach for prioritizing risks ranks them on their impact assuming that none are mitigated, but once the highest correlated risk is removed the risk rankings are almost certain to change

Sensitivity Analysis Results are Inaccurate



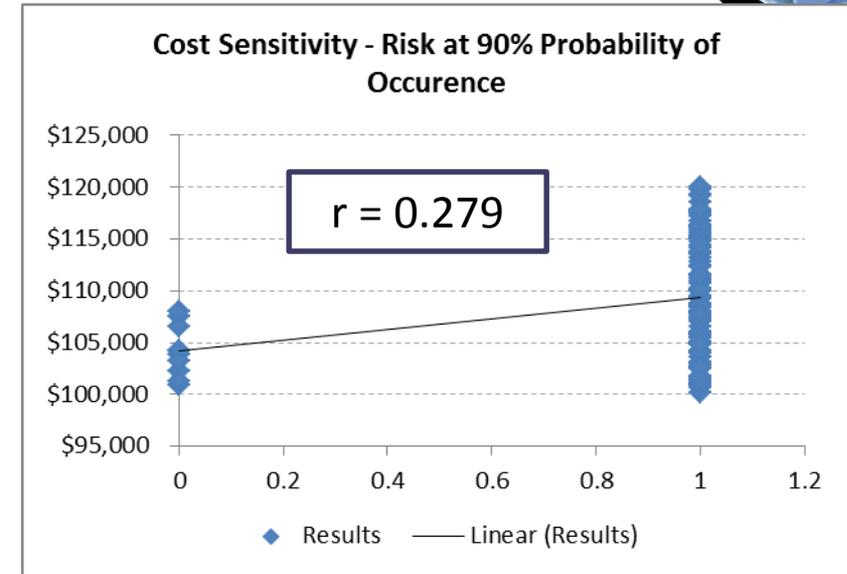
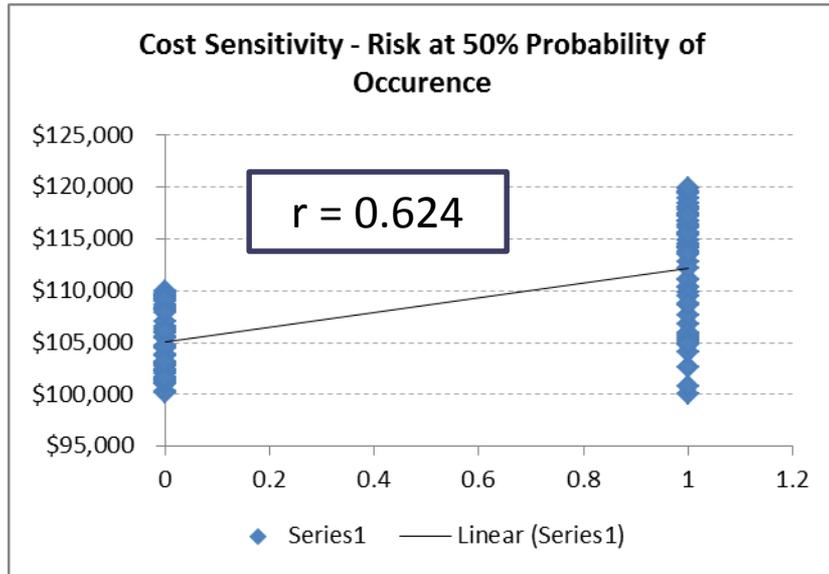
Risk 2 is clearly a stronger driver of schedule risk than Risk 1 – it has both a higher likelihood of occurrence and a higher impact should it occur....

Sensitivity Analysis Results are Inaccurate



...yet in our sensitivity analysis Risk 1 is still identified as the greater risk – let's explore this further

Pearson's Correlation is Unreliable



- Pearson's correlation (r) measures the strength of the linear relationship within a data set
- When used to analyze discrete events, r is highly influenced by the probability of occurrence of the event
- Due to this, Pearson's correlation is biased to rank events with probabilities of occurrence closer to 50% as more impactful



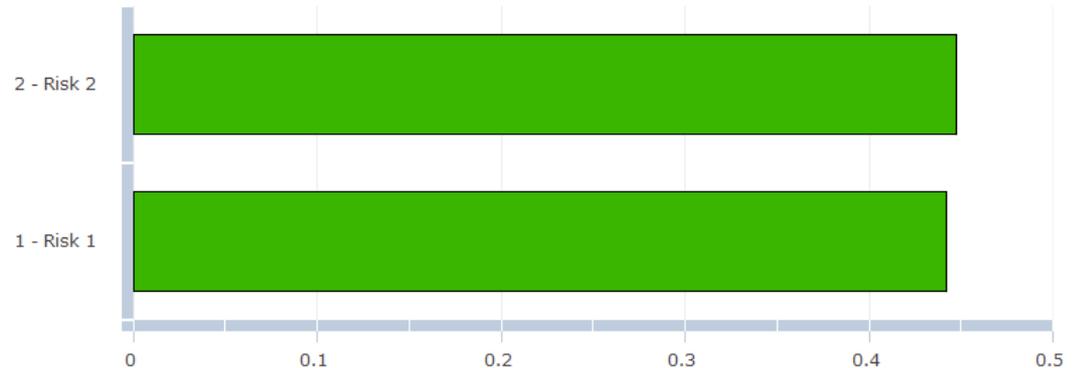
Correlation-based sensitivity metrics are NOT reliable at prioritizing discrete risk events

Traditional methods ignore schedule structure



ID	Task Name	Start Date	End Date	Duration	Impact
0	AACEi Example	5/19/2014	3/16/2018	1,000	\$0
4	Task 1	5/19/2014	3/16/2018	1,000	\$0
5	Task 2	5/19/2014	3/16/2018	1,000	\$0

Scope: Project Measure: Risk Schedule Imp...
Filter by: Top 10 Include Summary Tasks Include Milestones

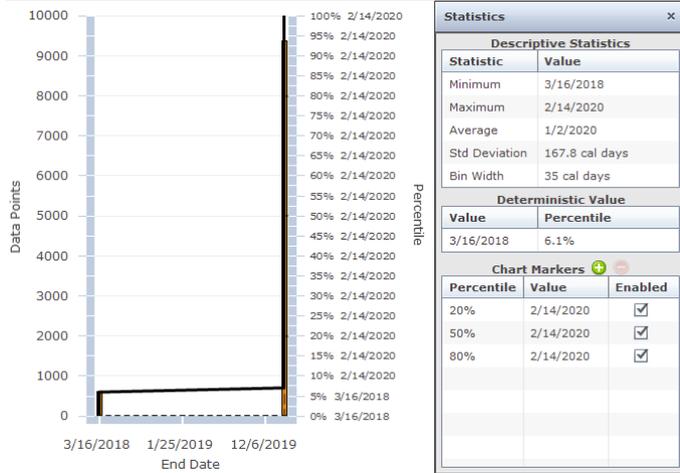


Each risk has a probability of occurrence of 75% with a fixed impact, should the risk occur, of 500 days of schedule growth

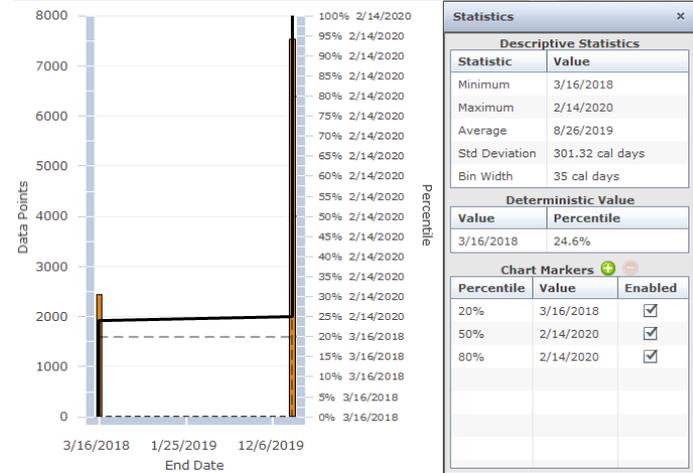
- Neither the risk matrix nor correlation-based sensitivity metrics account for the structure of the schedule when mitigating risks
- In the simplistic example above, two risks – with equal probabilities and impacts - are associated with two separate parallel tasks in a schedule with no baseline uncertainty
- Both risks exhibit medium correlation to the finish date of the schedule
- What value does this data provide a decision maker?
 - Which risk should be mitigated?
 - How much time will be saved by mitigating each risk?



Sensitivity analysis on two parallel risks



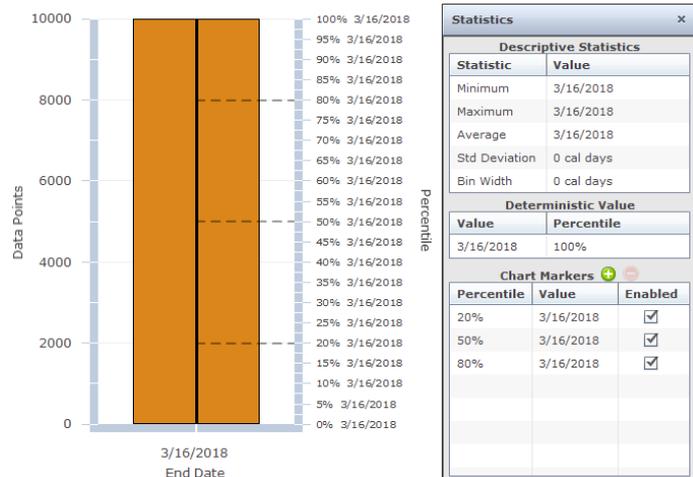
Neither risk mitigated – 94% likelihood of 500 day schedule growth



Risk 2 mitigated – 75% likelihood of 500 day schedule growth



Risk 1 mitigated – 75% likelihood of 500 day schedule growth



Both risks mitigated – 0% likelihood of 500 day schedule growth

Traditional methods ignore schedule structure



- The previous slide was presented in a simplistic manner to underscore the issue that today's risk prioritization methodologies ignore that the structure of the schedule must be accounted for when risks are ranked for mitigation
 - It is likely that full mitigative impacts won't be realized due to a shift in the critical path
- The aim of this presentation is to present three, increasingly sophisticated, methods for prioritizing risks in a ways more useful to analysts and decision makers
- The goal of the authors was to improve on traditional risk prioritization methods by ensuring the new ranking criteria:
 - Accurately prioritizes risks
 - Accounts for probabilistic aspects of the model including risks, uncertainties, and correlation
 - Is quantified using tangible (day and \$) metrics
 - Accounts for where the risk occurs within the structure of the schedule
 - Shows the cost/benefit trade-off of mitigating risks
- The problems addressed in the introduction were related to several ongoing projects the authors participated in
 - Thus, two of the three following methodologies were built into our Polaris tool for integrated cost and schedule risk analysis

USING STOCHASTIC OPTIMIZATION FOR ENHANCED RISK PRIORITIZATION

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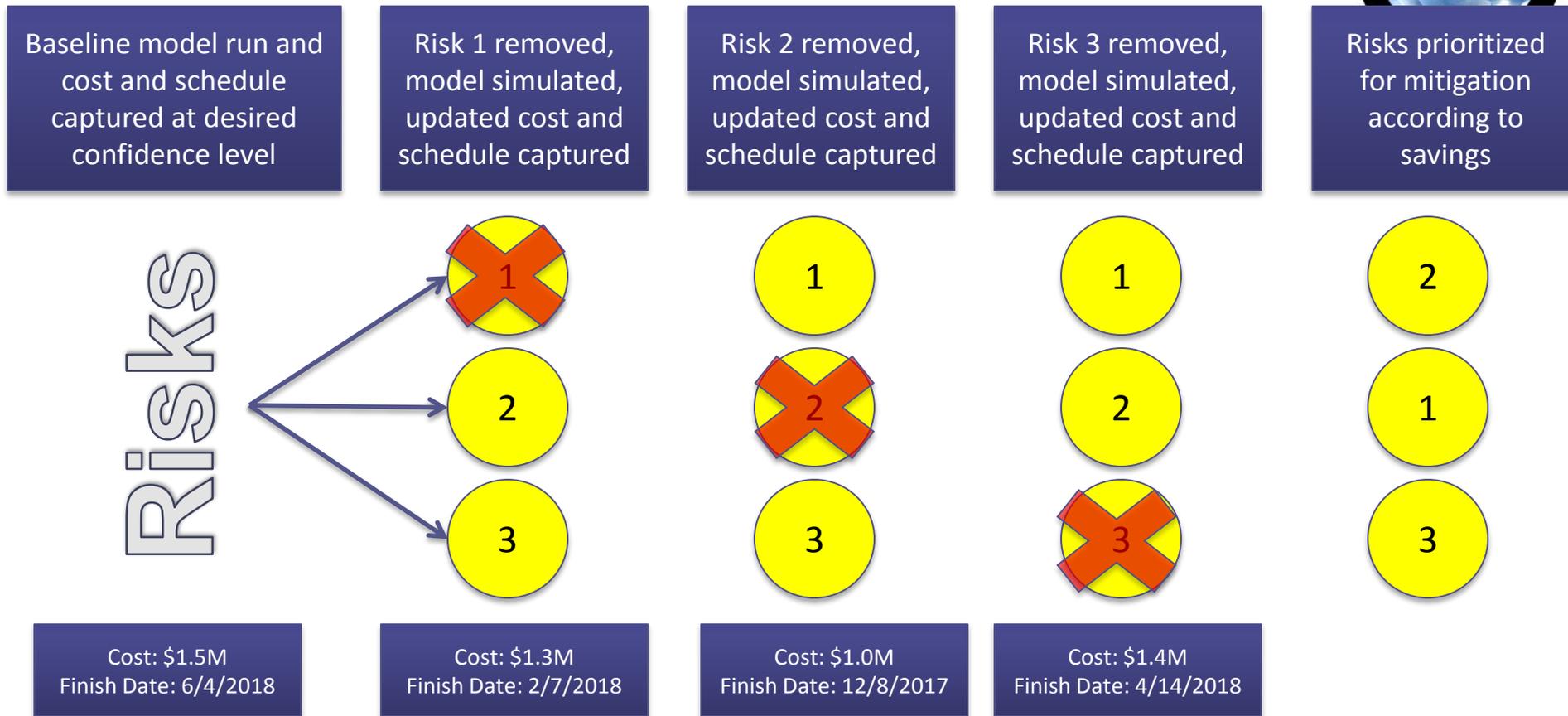
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- “Stochastic optimization methods are optimization methods that generate and use random variables”¹
 - Said another way, stochastic optimization is the practice of trying to find minimum and/or maximum values in a system where the system’s rules are represented by random variables rather than deterministic functions
- Since most risk analysis models leverage some type of simulation, any optimization of these models – to find the best risk to mitigate for instance – falls in the field of stochastic optimization
- This paper will present three methods for using stochastic optimization to prioritize risks:
 - Single Pass Prioritization
 - Iterative Prioritization
 - Knapsack Prioritization

Single Pass Prioritization



- This method seeks to rank risks based on tangible metrics by iteratively removing them from the model and capturing the resulting cost and schedule savings



- Pros:
 - Intuitive – the methodology is easy to understand from an analyst and decision maker perspective
 - Tangible – results are provided in day and \$ metrics
 - Relatively low number of simulations required to run (# of risks + 1)
- Cons
 - Does not account for how schedule structure impacts removal of multiple risks
 - Tough to do easily do cost/benefit analysis of risk mitigation due to inability to account for multiple risk removals

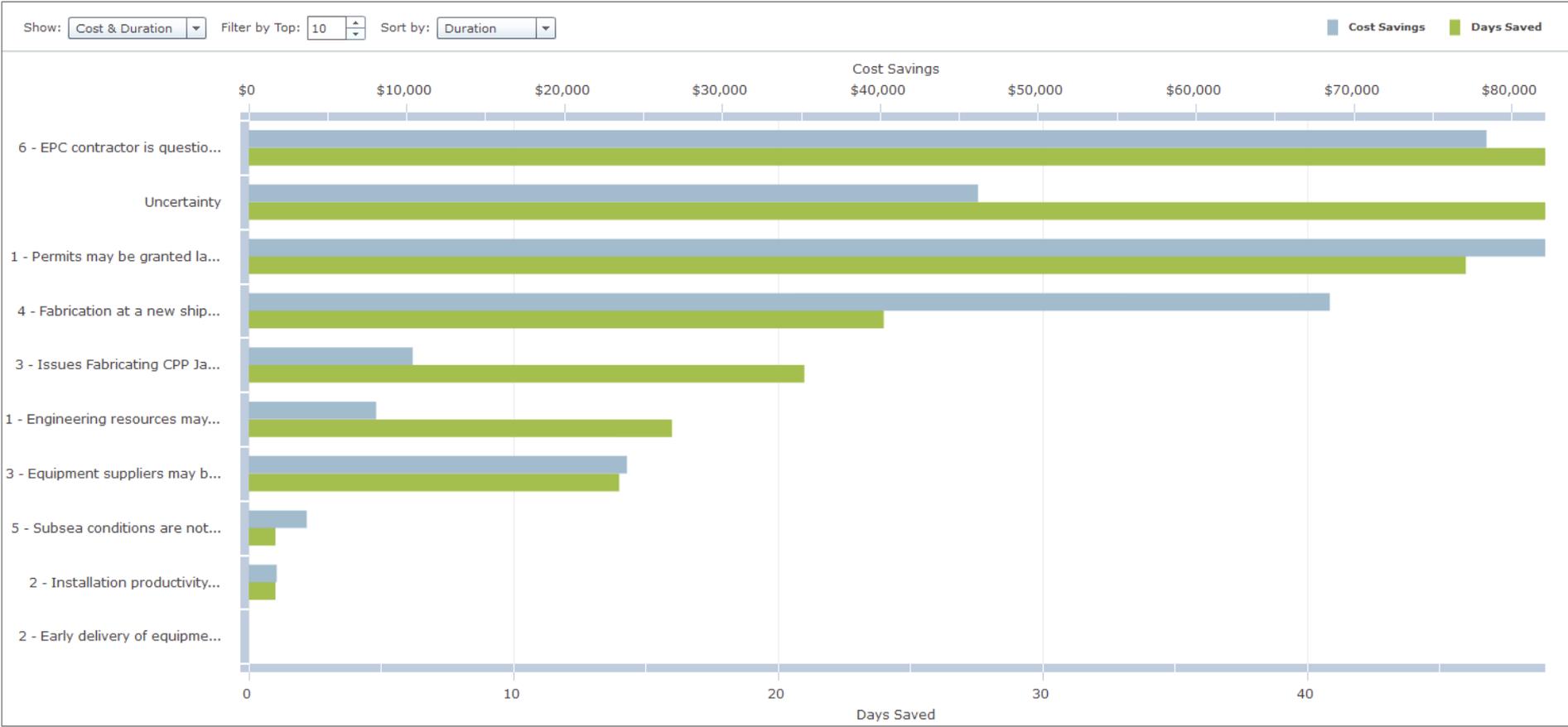
Implementation of Single Pass in Polaris™



Mode: Task: Cost Measure: Include: Risks
 Percentile: Year: Uncertainty
 Correlations

1 second

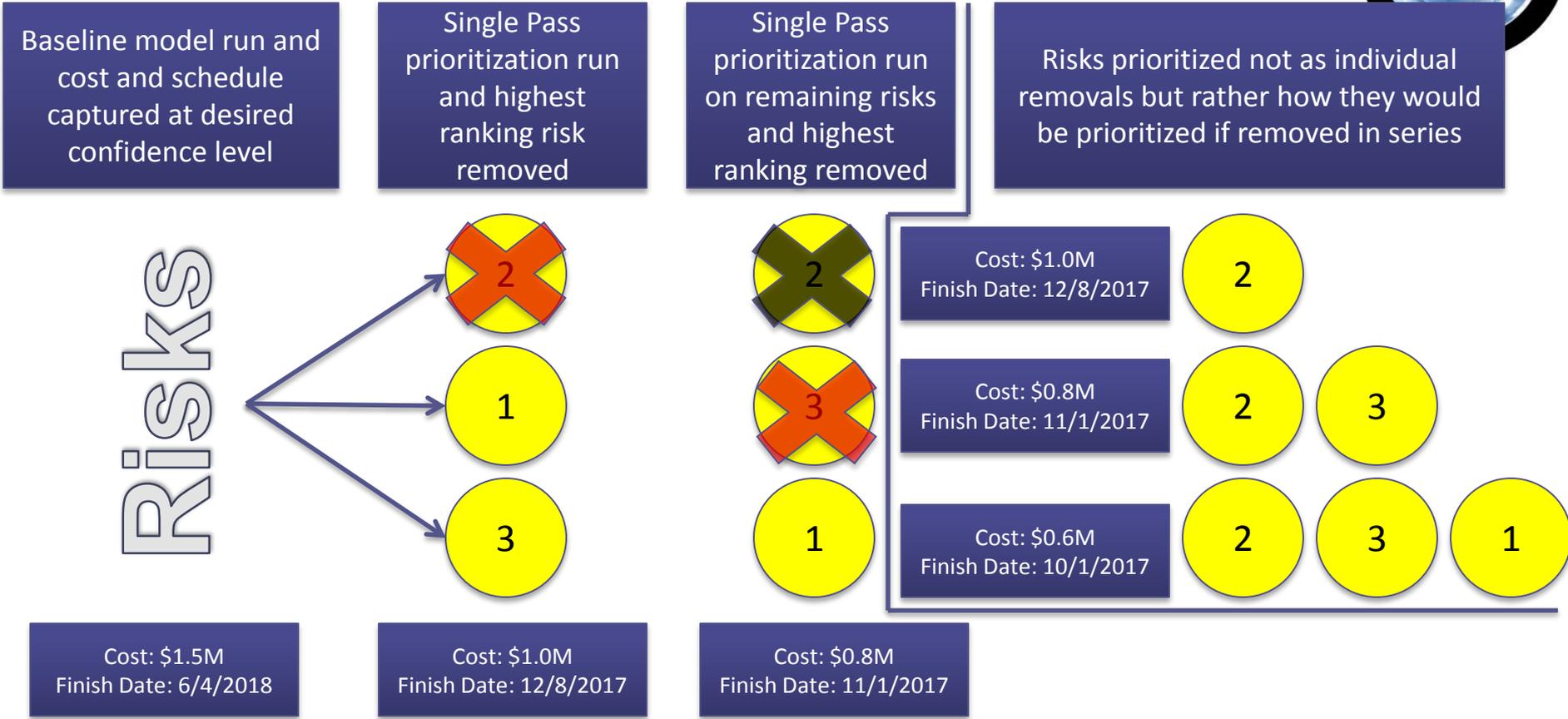
Risk Prioritization



Note addition of correlation and uncertainty factors as well as ability to prioritize based on cost or finish date for a task or year



Iterative Prioritization



- This method keeps the tangible metrics of the single-pass prioritization while accounting for schedule structure in removal of multiple risks

Implementation of Iterative in Polaris™



Risk Prioritization

Mode: Task: Cost Measure: Include:
 Optimize: Percentile: Year: Risks
 # Attributes: Uncertainty Correlations

2 seconds



Note different prioritization (value of removing uncertainty drops significantly when compared to single pass) and longer predicted run time



- Pros:
 - Intuitive – the methodology is easy to understand from an analyst and decision maker perspective
 - Tangible – results are provided in day and \$ metrics
 - Accounts for how schedule structure impacts removal of multiple risks
 - Easy to perform cost/benefit trade-off analysis to determine value of removing each subsequent risk
- Cons
 - Number of simulations runs required to perform analysis starting to grow - $\sum_{i=10}^n n$ where n is the number of risks¹



Knapsack Prioritization

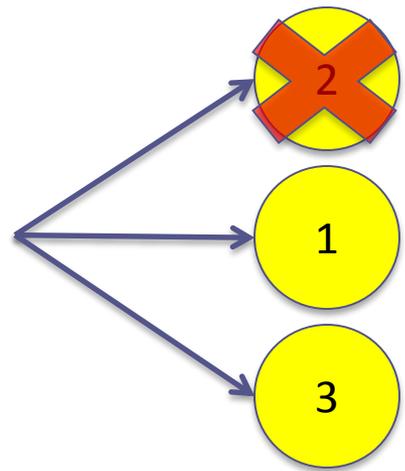
Baseline model run and cost and schedule captured at desired confidence level

Single pass prioritization run to determine best single risk to remove

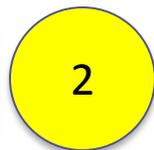
All combinations of two risks are removed to see which two risks, removed together, provide the greatest savings

Risks prioritized not as individual removals but rather how they would be prioritized if removed in series

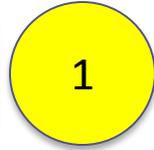
Risks



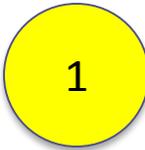
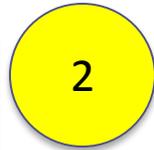
Cost: \$1.0M
Finish Date: 12/8/2017



Cost: \$0.7M
Finish Date: 10/9/2017



Cost: \$0.6M
Finish Date: 10/1/2017



Cost: \$1.5M
Finish Date: 6/4/2018

Cost: \$1.0M
Finish Date: 12/8/2017

Cost: \$0.7M
Finish Date: 10/9/2017

- This method will produce the 100% optimal set of risks to mitigate, but – as we will show, is too time consuming to be practical as an analysis tool



- Pros:
 - Tangible – results are provided in day and \$ metrics
 - Accounts for how schedule structure impacts removal of multiple risks
 - Guarantees optimal approach by testing all possibilities
- Cons
 - Knapsack optimization is proven to be NP-Hard and unsolvable for anything but the most simple problems
 - Number of simulations required to find top 10 baskets of risk to mitigate: $\sum_{i=1}^{10} \frac{n!}{(n-i)!}$ where n is the number of risks



Single Pass Prioritization Runtimes

		Risks			
		10	50	100	150
Number of Tasks in Schedule	Run-Time (Minutes)	10	50	100	150
	100	0	0.2	0.3	0.5
	1000	0.2	0.9	1.9	2.8
	3000	1	4.9	9.7	14.6
6000	3	15	30	45	

Iterative Prioritization Runtimes

		Risks			
		10	50	100	150
Number of Tasks in Schedule	Run-Time (Minutes)	10	50	100	150
	100	0.2	1.4	2.9	5.7
	1000	1	8.5	17.8	35.6
	3000	5.4	44.3	93	185.4
6000	16.5	136.5	286.5	571.5	

Knapsack Prioritization Runtimes

		Risks			
		10	50	100	150
Number of Tasks in Schedule	Run-Time	10	50	100	150
	100	0.1 hours	76.7 years	110,821 years	7 million years
	1000	0.3 hours	477.1 years	689,555 years	45 million years
	3000	1.7 hours	2,487.5 years	4 million years	233 million years
6000	5.1 hours	7,667.1 years	11 million years	718 million years	

For context, this is around the time that multicellular life on earth is predicted to die out



- Traditional risk prioritization methods are providing analysts, project managers, and decision makers inaccurate results that could result in poor decisions
- This paper has shown three methods for prioritizing risk that fulfill the following criteria with various levels of success:
 - Are accurate
 - Account for probabilistic aspects of the model including risks, uncertainties, and correlation
 - Are quantified using tangible (day and \$) metrics
 - Account for where the risk occurs within the structure of the schedule
 - Show the cost/benefit trade-off of mitigating risks
- Of the three methods presented, two have reasonable run times for the value provided and have been automated within Booz Allen's Polaris™ tool to enable them to be used by analysts
- We further recommend that these methods be adopted as a standard practice - correlation-based sensitivity metrics should not be used for discrete events
- This analysis assumes the complete removal of a risk that is mitigated (0 likelihood of occurrence and 0 impact);
 - As future research the authors intend on applying a gradient allowing partial reduction of risks as this is likely more realistic than wholesale risk removal



1. Smith, C, Herzog, H. (2012). Using Optimization Techniques to Enhance Cost and Schedule Risk Analysis. International Society of Parametric Analysis International Symposium