

If you are not managing risk, you are not managing!

Risk is a part of everyday life and inherent in all business ventures. Risk is particularly prevalent in construction where projects are generally unique, covering a myriad of products and skills, conducted in a profit oriented, commercially aware environment, executed by organisations with potentially opposing objectives, by individuals with different experiences, carrying out complex operations in difficult conditions.

The concept of risk exists as a result of our inability to predict the future. In the construction industry many decisions are made on forecasts and estimates of future expectations, usually when the information needed to make those decisions is incomplete, and therefore the potential for risk is high. If not managed effectively, risks can materialise into problems, become differences, claims and disputes.

The risks of many problems are found in the procurement process; tenders sought on insufficient information, inadequate design, ill defined schedules and unclear and inappropriate documentation. This can result in a lack of definition, unrealistic expectations, inappropriate procurement and contract strategies, poor documentation and inappropriate supply chain partners.

The failure to clearly articulate requirements into clear unambiguous documentation generally results in late and excessive change during the contract period. Inappropriate transfer of risk to a party who is either incapable of managing the risk or unable to bear the consequences should it materialise is another significant cause of project problems that can impact all parties. Similarly, the deployment of resources that lack the appropriate skill can lead to a failure to manage projects effectively. Inadequate resources fail to anticipate risks or recognise problems and compound issues by inappropriate responses.

A key aspect of the role of construction professionals is to manage risk.

Many of the risks on a typical construction project are present from the outset and known by those involved. The majority of the risks can be identified, understood, quantified and managed. Moreover, many problems arise from simple and avoidable events. The key is the early identification and appropriate management of the risks that cause these events. Identified risks are management problems that should be addressed in the same way as any other management issue. Moreover, effective risk management enables informed decisions to be made and priorities established, thereby allowing management to make the best use of its time by focusing its attention on those risks that most threaten the successful completion of projects.

Effective risk management provides a greater understanding of the project objectives and the risks threatening the achievement of those objectives. This means that projects are sanctioned with the knowledge of the risks that threaten them. The improved understanding assists with the selection and development of appropriate procurement and contract strategies based on clear objectives and the known risks. Greater understanding minimises ambiguities in documentation and enables a greater understanding of expectations, knowledge of obligations and responsibilities, and can avoid conflict and disputes.

The knowledge of risk facilitates more appropriate allocation of risk to contracting parties by the selection of appropriate contract conditions based on the risks threatening the project and the ability of the parties to manage and absorb the risks.

Greater understanding of projects improves scope definition during procurement, options are considered and themes developed which in turn reduces the extent of changes to be managed

during the project execution. Clear unambiguous documentation and appropriate procurement and contract strategies enables the selection of appropriate contracting and supply chain partners capable of delivering projects. The improved clarity in the project documentation assists with contractors understanding of project, the allocation of risks, roles and responsibilities to enable them to deploy appropriate teams and individuals to deliver projects.

Effective risk management identifies possible risks, assesses their probability of occurrence and potential impact and the selection and development of appropriate management responses. The aim is to manage and control risks before they become problems. Risk management techniques can be employed throughout the project life cycle; from the selection of appropriate procurement and contract strategies, the selection of contracting partners, through to managing the construction stage and the operation of facilities.

Successful projects, free from major problems do not happen by accident; rather the risks of the problems were effectively managed by those responsible.