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Ran in the CFMA Bottom Line Newsletter in June 2017

There Is No Bad Project – Only Bad Risk Management

JUNE, 2017

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Wouldn't it be nice to avoid a bad construction project before it starts? Nobody wants to waste time, lose money, ruin their reputation, or have workers injured during a difficult job.

One of the key differences between a good project and a bad project is solid risk management – taking the appropriate steps at the appropriate times to set yourself up for success.

Unfortunately, some contractors wait until problems arise, then try to find ad hoc, immediate solutions. The trouble with this approach is that solutions are almost always more expensive and less effective.

Instead, contractors need to think about risks and opportunities early and often. It creates more leeway for creative, cost-effective solutions. Whether through contingencies, contracts, or insurance, you can much more easily deal with potential issues with a risk-first point of view.

This is a two-step process: properly identifying risks, then making strategic plans for managing them. But how do you define risk, and how should you develop those strategies for managing it?

> "The more you plan for risk, the more consistently you'll realize reward."

REDEFINING PROJECT RISK

When contractors think of risk, they typically think of all the physical dangers of the work. In reality, the risks that most frequently disrupt projects aren't related to the actual construction activity.

Beyond safety, some critical project risks include:

- Cost management
- Time management
- Scope and change management
- Procurement and contracts
- People management
- Information management

While every contractor wants to avoid these issues, they still remain prevalent. A study by McGraw-Hill Construction found that scope and budget creep were the top risks facing the construction industry. Similarly, a study from the Surety & Fidelity Association of America found that management-related issues like scoping and accounting were the most common reasons that contractors failed.

This means that the most common assumption of what entails risk management is far too narrow. Risk, and the opportunities that arise from avoiding or mitigating it, can relate to any aspect of a construction project. Expanding that definition to the fullest perspective is the first step to understanding the factors that lead to a successful project.

PROPERLY MANAGING RISK

Once you've reframed the way you think about risk, you need a framework for approaching it. Here are some general, easy-to-remember risk management guidelines.

List Risk Sources

Take the previous list of risks categories and build upon it with others relevant to your project. Is weather a risk? Suppliers? Politics?

Rank Risk Importance

This can be a complicated process, because it will vary from project to project, and quantifying risks can be difficult. Remember that while safety risks may be most visceral, it's often the softer risks, like scheduling and budgeting, that tend to disrupt businesses the most.

Manage the Risks

For each risk, approach your plan of action using the acronym RISK:

Reduce it. Take steps to lessen the likelihood of the risk.

Insure it. Get insurance to cover the financial impact of the risk

Sidestep it. This might require saying no to something or finding another way to do something that doesn't face the same risk.

Keep it. Sometimes a risk may be worth taking, keeping the current situation as is. However, this doesn't necessarily mean that you do nothing about it; have a response ready if something goes wrong.

Thinking in these terms before a project begins will give you a leg up on competitors that wait to react to risks rather than to proactively plan for them. The more you plan for risk, the more consistently you'll realize reward.

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