How to Identify Risk & Eliminate by Avoiding Hidden Traps

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A Project’s Nemesis: Risk

*Murphy’s Law:* “If anything can go wrong it will at the most inopportune time.”

*O’Toole’s Commentary on Murphy’s Law:* “Murphy was an optimist.”

Therefore, minimizing risk is in everyone’s best interest!

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What Causes Risk

- Unique challenges
- Unknown
  - Not knowing what you don’t know
- Unresolved issues
- Assigning risk to someone who can’t manage the risk
- Poor planning
  - Lack of reliability
- Adversarial environments
- Poor decision making
  - Minimize subjective decisions
What Can You Do to Reduce Risk?

- The no decision structure eliminates decision making requirements caused by:
  - Confusion
  - Non-experts
  - Non-dominance and non-transparency

Methodology
- Forces non-expert to become experts by minimizing scope
- The expert does not need to minimize their scope
- Communication should be minimized to deliverables; this forces expert to take full accountability for deliverables
- Minimizes the need for technical information; which reduces decision making, shared risk, and increases misunderstanding
- Dominant information creates transparency

Why This Approach Works

- Vendor is an expert
  - 100%-0% risk approach
  - Vendor will minimize their scope, thus eliminate technical risk
  - When vendor has no risk; it is in the vendor's best interest to identify and help mitigate any risk through transparency

- The Conventional Approach
  - Research reveals buyers are the largest source of project risk as well as cost and time deviations
  - Vendors will try to maximize their scope, which increases risk
  - Shared risk occurs and accountability is minimized
Strategies to Reduce Risk

- Reducing risk starts with pre-planning
- Create a matrix of project risks
  - Potential financial exposure vs probability of occurring
  - Not all risks are equal in value or likelihood to happen
- Avoid command and control instead seek to understand and then align resources
  - Transfer risk & control to the best qualified entity along with accountability
  - Long-term relationships (know reliability)
  - Reliability may be more important than price
- Create win-win situations incentivized collaboration

Take Responsibility to Reduce Risk

- The contractor should take responsibility for minimizing the risk because it forces them to:
  - Be accountable for all risk include those they are not liable
  - Take control of project
  - Pre-plan
  - Minimize risk because it's in their best interest
  - Identify and document risks they cannot control
  - Act in the client’s best interest!
Contractor’s Responsibilities on Risk

- Identify the client’s expectations & communicate them to subs and vendors
- Minimize subjective decision making
  - Need to rely on experts
  - Need to rely on empirical data
  - Ask questions
  - Ask why
  - Get to the root cause
- Have a process that ensures:
  - Best value determines scope
  - Quality control systems are in place
  - Performance is documented and measured

High Performing Contractors Use a Risk Assessment Plan (RA)

- To identify and minimize potential risk before the project/task starts (pre-planning)
- To differentiate themselves from competitors to prove not a commodity
- To prove they can act in a win-win, visionary, experienced & effective way
Risk Assessment Plan

- Identify the biggest risks to key project elements.
  - 80/20 rule: 20% of the issues will create 80% of the problems
  - Focus on the most important issues

- Develop a plan to minimize or eliminate the potential risk.

- Include not only identifying risks the contractor cannot control, but how to minimize them.

- Keep it simple: non-technical.

RA Plan Contents

- List major risks unique to project
  - Prioritize the risks: biggest risks first
  - Address how the risk will impact the project constraints
  - Risks must be unique to the current project
    - Why only unique risks to the project?
  - Must explain why the risk is a risk

- Explain how to avoid or minimize risk
  - Non-technical explanations
  - Must explain how risk is avoided

- Propose options to increase the value (expectations or quality) on the project
Weekly Reports

*What is it / Why is it important*

**What is it?**
- Spreadsheet that tracks unforeseen risks on a project
- Process should begin with notice to proceed

**Why is it important?**
- Allows contractors to track unresolved client issues
- Allows contractors to minimize risk
- Allows contractor to document all client decisions
- Accuracy of the report will impact results

**How much effort?**
- Minimal (less than 5 minutes), unless vendor did not preplan, or client making decisions
- Contractor should prepare report every week starting with notice to proceed

What Are Your Questions or Thoughts?

Don't Forgeté
- 10:15 - 11:30 am Opening General Session
- 11:30 am-5:00 pm NECA Show