

Risk Management

Who should read this fact sheet ?

Risk management is a process to help you identify issues that could have a significant negative impact on your business, then evaluate and minimise the potential effects of those risks. Anyone interested in risk management in the construction industry should find this fact sheet a useful introduction.

How to get started

These are the typical first steps:

- **Establish whether risk management is appropriate:** Consider the potential benefits of risk management and its applicability within your company. Usually, you will need to form a risk management team, professionally facilitated. At this stage, probably in a workshop environment, you will identify most of the significant risks to your business and those over which you have some control. This is the time for considering what can threaten your company's success.
- **Achieve Company Buy-In:** The benefits of risk management and the way it will be applied in your business must be understood and supported at the most senior levels, as well as amongst those who will be involved in applying risk management.
- **Develop a Risk Register:** The risk register is a critical document – it must contain a comprehensive list of significant risks, together with the costs and benefits associated with them. Developing the risk register could involve a wider reference group than the core risk management team.
- **Monitor Risk Continuously:** New information on risks, for example feedback from within the company or learning from projects should be logged in the risk register. As experience grows, risks will be added and subtracted from the register.

What are the benefits of risk management?

- Minimising uncertainty on projects or during changes in company organisation;
- Better decision-making – risk management either as a stand-alone project or linked with a value management exercise (see value management fact sheet), can ensure that strategic decisions are well-founded;

- Providing a hard focus on critical problems. For construction projects these will include risks associated with design, construction and maintenance/operation. Risk management techniques will complement a whole life costing approach (see whole life costing fact sheet);
- Better briefing (see briefing fact sheet)
- Better work planning – risk management enables you to balance high-risk projects with lower-risk projects.
- Clearer accountability – once risks are established, risk-minimisation can be assigned to individuals within your team.
- Better 'partnering' (see partnering fact sheet) – risk management help provide partners with a common purpose.

What type of risks could affect construction projects?

These are some of the potential risks, a number of which could also be relevant to organisational change.

Particular risks for construction industry clients:

- The income or benefits from a building or project could be lower than expected.
- Poor advice could lead to: use of inappropriate management tools for the project; choice of inappropriate procurement routes; failure of systems to identify and secure the quality required by the client; a project which is poor value for money.
- Completion could be delayed because of: disruption; inefficiencies and/or lack of co-ordination in the supply chain; disputes; poor quality work; bankruptcy.
- There could be unforeseen project costs, including variations.
- Higher than expected running costs could result from: defective design; unmet specifications; defective construction.

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Particular risks for main contractors and specialist contractors:

- Poor tender/briefing documents
- Client who will not commit
- Inexperienced client
- Non-standard contract documentation
- Ultimate client failing to sufficiently acknowledge and reward quality and value for money
- Poor design for construction, for example when 'buildability' is not properly addressed
- Unexpected problems relating to the site, such as contamination or unusual ground conditions
- Co-ordination problems – this could be a particular problem for specialists
- Component and/or materials suppliers unable to meet delivery and/or cost targets
- Faulty components and/or materials
- Accidents and injuries to staff
- Weather interrupting work
- Delayed payments
- Poor documentation of records
- Lack of co-ordination of documentation
- Poor guidance for operatives
- Poorly trained or inadequately trained workforce
- Industrial disruption

Particular risks for designers:

- The client does not have the necessary resources or experience to support the project;
- The project is larger and/or more complex than in the designer's previous experience;
- Responsibilities in non-traditional procurement may not be clear at the outset;
- Procurement routes might restrict the level of design input;
- Poor tender or briefing documents;
- Non-standard contract documentation;
- Poor, inadequate, inaccurate or inconsistent product information;
- Delayed payments;
- Poor documentation of records.

For more detailed guidance:

Control of Risk – a guide to the systematic management of risk. CIRIA Special Publication 125. 1996. ISBN 0 6017 4417 An introductory book covering a simple, practical method of identifying, assessing, monitoring and managing risk.

Project Risk Management – Processes, Techniques and Insights. 1997. C. Chapman and S. Ward. This book provides a review of project risk management.

Managing Risk in Construction Projects. Blackwell Publishing. ISBN 0 632 04243 5 The book provides information about the various steps which comprise the process of risk management so as to support those professionals tasked with understanding the job in the real world.