

# MITIGATING RISK

## Finding Ways to Manage Risk in Complex Environments

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When undertaking a construction project, the safe delivery of a quality facility is of paramount importance. This does not happen without the proper attention to risk, change management and quality control. To effectively manage risk on behalf of the project owner during contract administration, proven cost control methods and contract oversight must be rigorously applied. A finely honed strategic and proactive process can help to overcome many of the obstacles that can arise.

### ADDRESSING COMPLEXITY

As modern projects involve ever-increasing complexity and intelligent systems, today's multidisciplinary project teams have become more highly specialized. As a result, contractual teaming relationships have also become more complex. It is common for each individual contract to address procedures for changes and accommodating unforeseen events. This has created a climate where the potential for unexpected conflicts or owner-requested revisions has increased significantly.

This changing dynamic has shifted the impact on the contractor's approach to cost management. Today, instead of focusing on the efficiency of their own workforce and operations, project staff must now manage multiple sub-contractors. Profit or loss for the entire project is based on how well (or poorly), the buyout process is managed by the contractor.

### MANAGING CHANGES

Some level of change is always inevitable in construction. A successful change management approach recognizes that changes are part of the process. The goal is to keep the project on track by establishing appropriate expectations, options and processes, and to collaboratively integrate all adjustments to the plan.

Since scope changes almost always occur, it is extremely important that both the construction and the owner teams understand the full scope of their subcontractors' engagement. This helps to guard against unsubstantiated change order requests that can pass inappropriate charges on to the Owner.

Typically, an effective process involves the contractor pricing out the scope change in accordance with the provisions established in their contract. At that point, the owner's project manager is responsible to assess the contractor's pricing to ensure a fair resolution to the issue. Budget metrics are then carefully updated and analyzed. This type of close coordination between the contractor and owner team is essential to properly manage any unexpected cost burdens to the project.

### ENFORCING CONTRACT TERMS

The owner, in partnership with the project team, has a critical role in enforcing the terms of the contract. This includes review and training on the contract terms, facilitating open communication with the contractor regarding potential changes, accurate and timely financial reporting and projections and timely decision-making and recommendations to resolve open issues. Some of these efforts can be supported by new technologies (such as Business Intelligence or BI) that automate and streamline the process, resulting in faster decisions with less administrative effort.

## MITIGATING CONTRACTUAL RISK

Contract terms can drive solutions that mitigate or prevent changes. Successful contractual strategies include:

- Seeking out teaming partnerships that reduce the number of contractual relationships
- Providing incentives for all parties to work toward mutually beneficial project outcomes
- Performing a risk assessment and incorporating the results into proactive mitigation strategies
- Ensuring that risks are assigned to the parties best able to manage them
- Establishing agreed-upon rates or allowances for unforeseen events

## PREVENTING REPUTATIONAL RISK

Cost forecasts cannot always predict the scope changes that result in change orders. Successful contract administration focuses on minimizing cost and maximizing revenue ethically and skillfully. A strong partnership between the owner and contractor to establish strategies that monitor and control project costs will take the sting out of change management. Together, they should explore all legitimate avenues for payment due via the terms of the contract, such as applying the maximum allowable markup rates and anticipating and resolving compensable delay events as early as possible.

Throughout the process, care must always be taken to abide by all contractual and legal provisions, as the risk of incorrect pricing can damage a firm's reputation and result in potential infractions of false claim statutes. The integrity of the team must never be compromised. Decision-making must always center on advocating for the client, maintaining unimpeachable standards for quality and safety and delivering an exceptional building or program.

## CONTACT US

Dealing with unforeseen conflicts or revisions in scope? We're here to help. Our project managers, project controls specialists and cost estimators guide you through the construction process and serve as your advocate. Learn more by getting in touch with **Brian Tracy, PE, CCM** or **Joe Folliard, EIT**.



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