Contractor Strategies to Mitigate Risk

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Types of Project Risks

- Project Execution
- Commercial
- Contractual
Project Risks For Eng Contractor - Commercial/Contractual

- Lost Future Business
  - Financial Loss
  - Lawsuit
  - Client Financially or Politically Insecure
  - Unreliable payments by Client (holdback)
  - Cash Flow Impact
  - Confidentiality concerns limit future work
Lost Future Business

- Expectations not met
- Unsuccessful project
  - Poor Safety
  - High Cost
  - Excessive Schedule
  - Project performance sub-par
Project Risks - Execution

- Overall Cost
- Minimum Cost Growth
- Cash Flow Management
- Overall Schedule
- Minimum Schedule Growth
- Change
Project Risks – Execution

- New/unfamiliar technology
- Facility Reliability
- Product Quality/Rates
- Owner financial risk (shift to engineering/construction contractors?)
Project Risk Mitigation - Execution

- Clearly defined Project Goals and Objectives
- Staged Gate Project Process
- Integrated Teams (Owner, Engineer, Constructor, Operations, Maintenance, Key Suppliers, Technology Supplier)
- “Competent, Capable, Available” Team Members
  - Experience/expertise, Resource Availability (People, Offices, Tools), “Work Process Driven”,
- Scope and Expectations Documented & Agreed to
Project Risk Mitigation - Execution

- Good Front End Loading
  - Scope Definition
    - Understand “current state” definition
  - Estimate/Cost Definition
  - Resource Loaded Schedule
  - Project Execution Strategy/Plan
- Change Control Plan/Procedures
Project Risk Mitigation - Execution

Risk Management Plan

- Know what you know and what you don’t know or are unsure of and manage them
- Contract type (Reimbursable, Unit Price, Guaranteed Maximum Price, Lump Sum) should match
  - Level of project definition,
  - Degree of control by individual parties,
  - Parties ability to “absorb” risk
Keys to Risk Allocation

- Risk should be allocated to the stakeholder who can control it.
- As stakeholder’s risk “requirement” increases or ability to control risks decreases, stakeholder increases his costs to ensure business survival.
Mitigating Project Risks For Eng Contractor - Execution

- Assess our Experience with Client (Company/PM)
  - Do their values, and goals align with ours?
- Investigate Financial/Political Stability/“Viability”
  - Local Work Environment?
  - Country’s Business Environment?

Bid/No Bid decision??
Mitigating Project Risks For Eng Contractor - Execution

- Do we have the right people (key personnel, numbers, location, and capability)? Single office, multi-office
- Are client’s expectations/goals clearly documented and understood?
  - Are they reasonable?
- Assess technical risks?
- Partnering/Teaming requirements or needs (Technology Partners, JV, Specialty Subcontracts)
Mitigating Project Risks For Eng Contractor - Contractual

- Contractual (Potential Costs match financial gain)
  - For Reimburseable contracts
    - WILD (warranty, indemnity, liability, damages)
      - Warranty – re-performance of services
      - Indemnity – comparative negligence
      - Liability – cap on costs
      - Damages – no consequential damages, unlimited liabilities
Mitigating Project Risks For Eng Contractor – Commercial

- Assess Market
- Balance/negotiate costs of potential risks (incl contractual) vs potential margin
Processes to Mitigate Project Risks For Eng Contractor - Commercial/Contractual

- Business Assessment for Submitting a Proposal/Bid
- Proposal/Bid terms based on Client’s requirements and Engineering Contractor’s business opportunity/risks
- Contract Terms and Conditions reviewed/approved internally (incl legal review)
Processes to Mitigate Project Risks For Eng Contractor - Execution

- Internal Project Strategy Meeting to ensure right resources, right plan, risks understood/managed
- Monthly project reviews by management
- Project Work Process Utilized
- Change Management
- Work Process Gate Reviews
- Routine Client Surveys to ensure alignment