kahua

Capital Programs Are Risky Business

"It's no exaggeration to say that governance and controls are the very lifeblood of projects."

KPMG—MAKE IT, OR BREAK IT—Global Construction Survey 2017

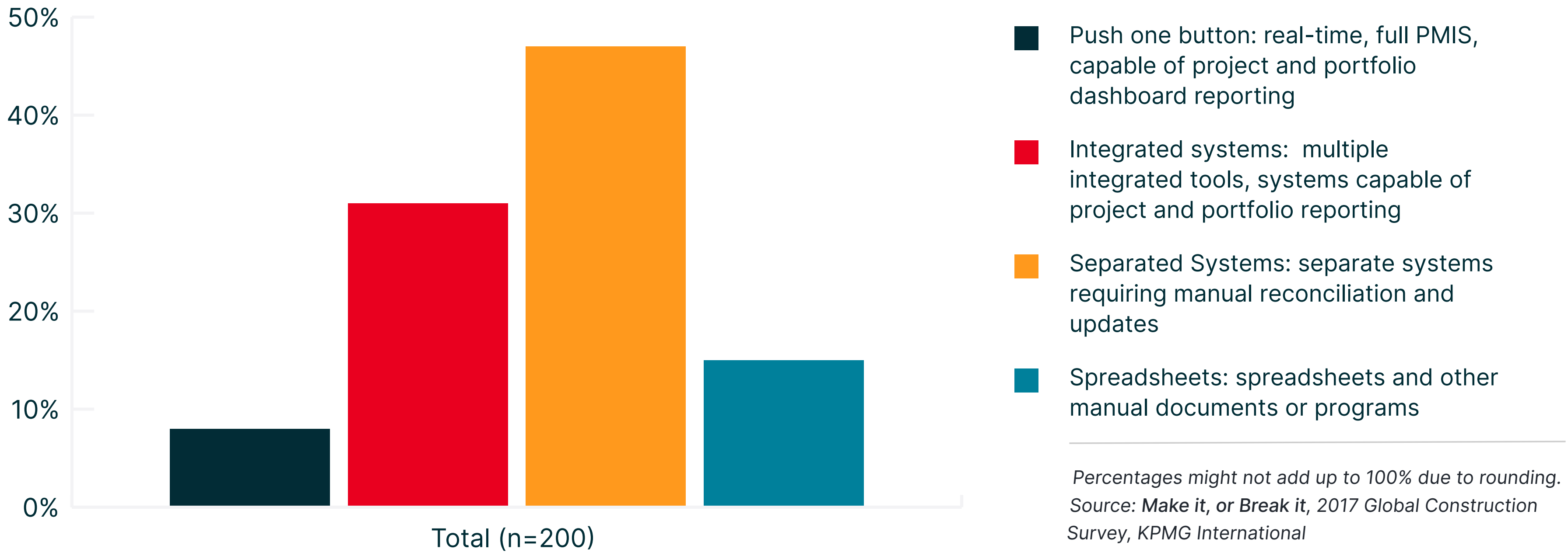
As the construction industry evolves, three main drivers determine the outcome of any program: governance, technology, and people. Each goes hand in hand, and without the support and evolution of all three, the lack of transparency, lack of productivity, and probability of increased risk will continue to plague capital programs of all sizes.

It all starts with governance. Organizations must define clear business strategies and align them with processes and controls. Only then will each constituent involved in a program have clear and defined guidelines to follow.

Following governance and controls are people directly within your organization and those key to the success of any program, including designers, architects, engineers, and contractors. In today's world, with new and evolving technology and an understanding of how COVID has changed how we work, owners must adapt and empower teams to collaborate, feel empowered, and contribute to the process.

Then there is technology. The right technology platform that conforms to your governance—controls and business strategies—will increase transparency, increase productivity, and decrease risk. However, if it was really that easy, why is the industry still falling behind with that "easy button"—push one button - real-time Program Management Information Solution (PMIS)?

FIGURE 1:
Which statements best describes your organizations project reporting?



Percentages might not add up to 100% due to rounding.
*Source: **Make it, or Break it**, 2017 Global Construction Survey, KPMG International*

Governance, People, and Technology = Risk Management

A tall order, to align governance, people, and technology. Imagine, though, if you did. Managing your capital program risk would not feel like a game of whack-a-mole — not knowing when or where the next mole—or risk—will pop up to derail your program!

"Risks" will come from just about anywhere, derailing some of the best-planned programs, resulting in time, money, and in some cases, irreparable consequences. To anticipate, plan, and effectively manage risks, you need to be aware of where they come from, and have a PMIS platform that will drive your governance and compliance in managing each risk and empower people to plan, act and react, if necessary.

Capital program risks are categorized as follows:

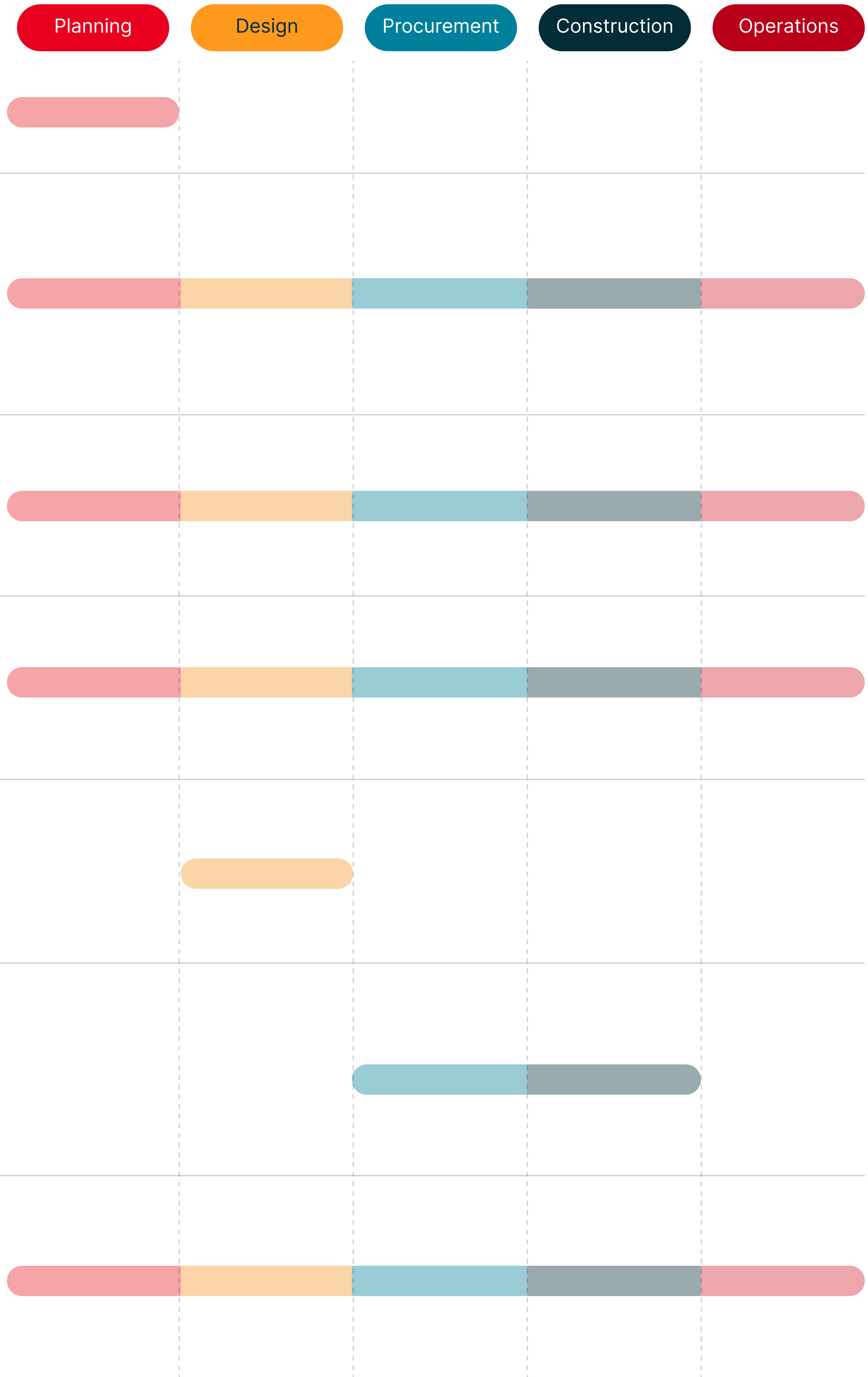
- **Financial**: material cost, inflation, estimation errors, unmanaged cash flow
- **Environmental**: weather, access to the site, natural disasters, pollution
- **Socioeconomic**: changes in laws and regulations, increases in taxes
- **Construction**: design changes, labor productivity, and disputes

But Managing Risk Need Not Be a Defensive Strategy

Mitigating risk comes down to knowing the potential risks and then tracking each in a single platform. The goal would be when a possible "risk" poses a threat, people have the insight to detect it, and are empowered to follow a protocol based on pre-defined governance and controls. In addition, when managed in a single platform, owners can understand the impact immediately.

FIGURE 2:

Risk can be found in every phase of the capital-planning process. Understanding, and planning for, risk is just as important as understanding where and when risk could jeopardize the program.



RIGHT OF WAY

- Contract negation timelines
- Land/parcel cost negotiations

ENVIRONMENTAL

- Wildlife impact
- Noise and air quality implications
- Historic impact
- Water quality
- Community impacts
- Hazardous materials

ORGANIZATIONAL

- Lack of internal communication and real-time data sharing
- Inexperienced teams
- Disparate data/systems

PROJECT MANAGEMENT

- Scheduling/contractor delays
- Change orders
- Approval processes
- Failure to follow contractual obligations

DESIGN

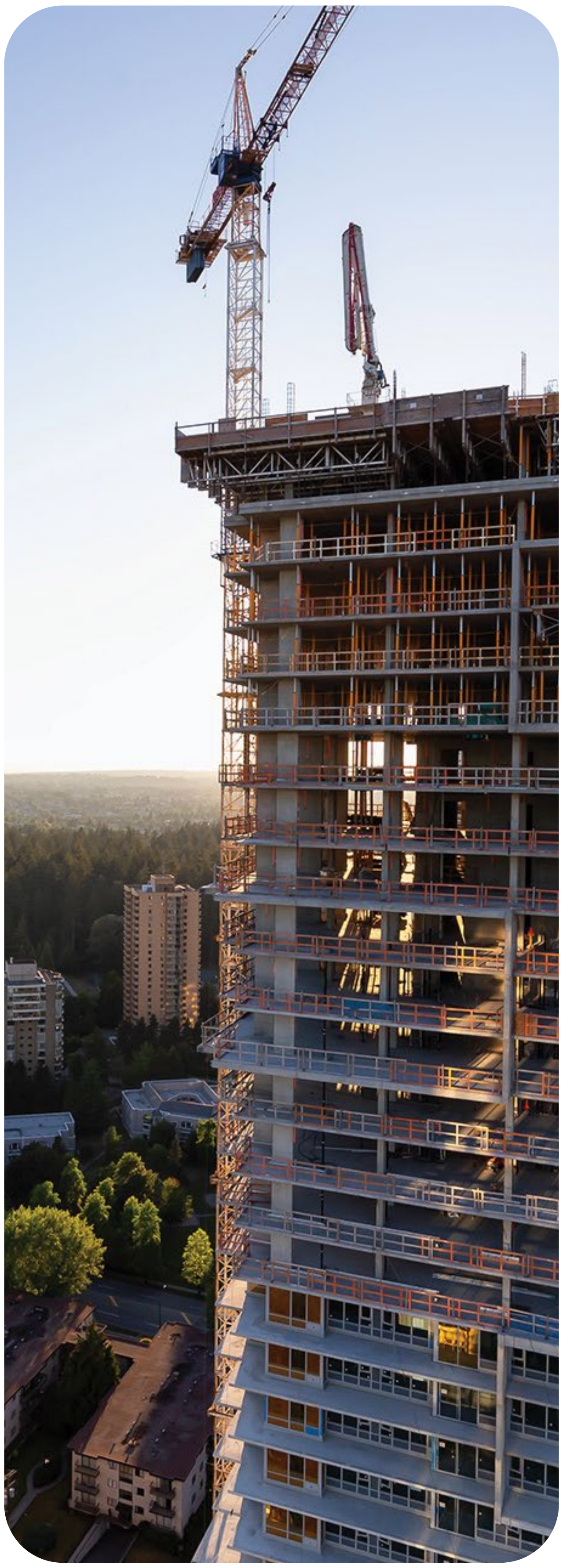
- Approvals
- Design changes and/or errors
- Stakeholders' late changes
- Failure to follow contractual obligations

CONSTRUCTION

- Weather
- Changes in work contract estimates and time
- Delay in materials
- Funding

EXTERNAL

- Lawsuits
- Stakeholder changes
- Political differences
- Tax changes
- AWS and/or local standard changes



Unforeseen Risk...
What Do You Do?

Risk = Uncertainty that matters. Even the most comprehensive plan will present itself with risk that no one saw coming. So, what do you do?

First, do not panic. Unforeseen risk will happen. There is no getting around it, and in some instances, it will not pose the negative impact expected. As always, return to the basics. When a potential risk is identified—no matter how insignificant it might seem—pull together key stakeholders and team members to map a risk management plan that walks through risk assessment, mitigation, status, and resolution. Once this is in place, make sure to incorporate the new risk and mediation plan into the overall project plan for complete transparency on any ripple effect it will have into other key milestones.

Risk management best practices are enacted not only to identify and plan for risk but also to calculate the uncertainties and predict the influence they will have on a program. Only when potential risks are properly managed in a "push one button" real-time PMIS will owners realize the full visibility of potential budgetary and schedule impacts on a program. With a specialized project risk assessment and risk mitigation plan, you will never have to worry about being blindsided by surprises.