CORRECT RISK MANAGEMENT-THE KEY TO THE SUCCES OF A PROJECT

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Abstract

Today, global borders are rapidly diffusing and one cannot operate in isolation. Rapid changes caused by disruptive technologies have also contributed to the risks. The dynamic environment full of uncertainty in the global economy has forced us to look beyond conventional methods to stay in control and prevent risks from negatively impacting projects. We all need to accept that today's business activities are no longer mutually exclusive, but interconnected and interdependent. Above all, the activities and tasks we perform are associated with greater risks than ever before.

The work is based on observations and discussions with project managers and other interested parties in the area of public administration that has ongoing investment projects. The paper tries to highlight the risks associated with projects and aims to help the Project Management Team to relate to these factors, generate greater awareness and increase their success rate. To promote a better understanding by correlating with the risks associated with construction projects, the paper is based on the major risks encountered while implementing a project. The basic objective of this work is to help project teams stay focused and initiate timely corrective actions to prevent negative impact on the project.

Key-words: Risks, project success, stakeholders, owners, contractors, project teams

Jel Classification: G320, H100 , L380

1. Fundaments

Organizations often have strong, high-performing project teams that deliver results and achieve project goals. Such organizations have a success rate of over 95%, and yet, the failure of a single project completely nullifies these margins. This is interesting and forces us to investigate WHY the project failed and HOW do we prevent such a project failure that not only nullifies the efforts of other project teams but also erodes the image and profitability of the entire organization.

Most studies have pointed out that often project failure is not attributed to a lack of skills and abilities, but refers to a lack of application of risk management.

Organizations often have strong, high-performing project teams that deliver results and achieve project goals. Such organizations have a success rate of more than 95%, and yet the failure of the single project completely offsets these margins. This is interesting and forces us to investigate why the project failed and HOW do we prevent such a project failure that not only nullifies the efforts of other project teams but also affects the profitability of the entire organization.

Most studies have pointed out that often project failure is not attributed to a lack of skills and abilities, but refers to a lack of application of risk management.

We may have the best processes and plans, but sometimes even the most experienced project team members tend to underestimate the prudence of risk management. Rapid technological innovations have created greater awareness and led to higher expectations and a continuous desire for change by stakeholders.

2. Objectives

The normal mindset associated with the word "risk" is to tend to look at the downside and 99% of the time, we usually perceive risk as something terrible, that something bad, dangerous, etc. will happen. We must remember that sometimes opportunities come disguised

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as risks. Moreover, storms are known to produce good sailors, and here too risky projects are known to shape and train project managers as good professionals.

Project teams are often driven by project pressures to complete projects within the triple constraints of cost, quality, and time, and team members tend to overlook the associated risks during project phases. The most pertinent questions that help us get to the root cause of project failure are listed below.

Based on our experience, although we may have covered the main risks in the article below, the risks highlighted below should serve as food for thought and are not a checklist. Also, as mentioned above, the overall goal is to help project teams clearly identify the key factors and/or combination of factors that lead to project failure. The factors can be broadly classified into five areas

1) Owners
2) Stakeholders
3) Contract
4) Location
5) External factors that materially affect the success of the project

Owners are one of the most important stakeholders and should logically be covered as stakeholders, given that owners define their requirements and project deliverables are centered around owner requirements, owners have been treated separately to facilitate the understanding and flow of the project.

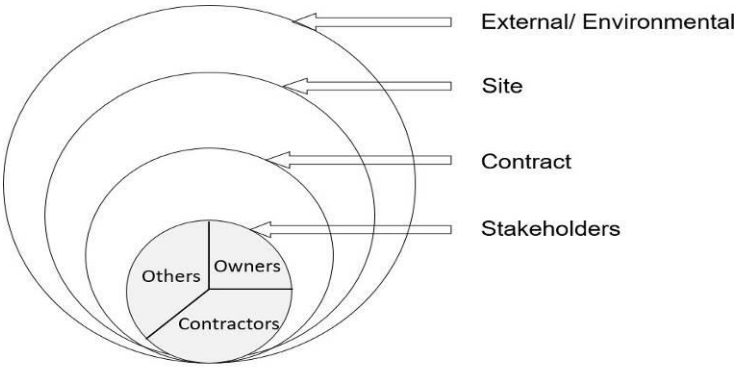

Fig: 1 Key Risks for a Construction Project – An outline

Note: % Risks factors not to scale

Figure no. 1 Below provides a picture of the key risks for each factor

1) Owners

The success of the project is determined by the clarity of the project objectives for the owner, which are covered in the scope of work in the contract. It is therefore essential that the scope of work and requirements are clearly defined and understood by stakeholders. Clarity in project requirements helps get everyone on the same page and aligns stakeholders to address the "What" and "Why" parts of the question of specifying project requirements (governed by Owners' expectations) and Contractor's deliverables are aligned to expectations the owners.

Requirements management is therefore the starting block for any project and failure to understand requirements leads to failure to achieve project objectives, ultimately leading to unhappy owners.

2) Stakeholders

Stakeholders are key personnel who have a direct interest in the outcome of the project. Project team members are the most important internal actors who translate contractual requirements into deliverables. Some of the questions that can help probe deeper are:

I. Is there openness and transparency between the interested parties - the owners' representatives and the contractor's representatives? - OPENNESS, TRANSPARENCY AND FREE FLOW OF INFORMATION

II. Do the stakeholders gel well and function as a cohesive unit? - GROUP DYNAMICS

III. Does the project manager possess the necessary leadership skills? - DRIVING

IV. Do the stakeholders (especially project team members) have the necessary competencies and skills? - PROJECT MANAGEMENT COMPETENCE

V. Is there openness and transparency among stakeholders, especially among project team members? - OPENNESS AND TRANSPARENCY

VI. Are the communication channels well defined? - FREE FLOW OF INFORMATION

3) Contract

For a project to be successful, it is extremely important that there is clarity in the contractual requirements and that these requirements are clearly understood by the members of the team executing the contract. Some of the key areas of concern below help to clearly identify the associated risks and prevent catastrophic effects:

I. Does the contract state the requirements unambiguously? - CLARITY

II. Did the project team understand the requirements and identify gaps, if any? CLARITY

III. Do we have clarity on what the owner wants and are the deliverables? -

REQUIREMENTS AND EXPECTATIONS

IV. Have the owner and project team reviewed the requirements and agreed on the deliverables? - THE FIELD OF CLARITY

V. Did the project team communicate the scope of requirements to the procurement department? - COMMUNICATION

VI. The project team reviewed the assumptions - ASSUMPTION VALIDATION

VII. Has the project team analyzed risks - identified possible risks and their likelihood of occurrence and impact? - RISK ASSESSMENT

VIII. Are there verbal / secondary agreements to the contract? OTHER CLAUSES

IX. Does the contract clearly state the obligations of the parties - both the Owner and the contractor? - OBLIGATIONS OF OWNERS AND CONTRACTORS

X. Are the links and interdependencies between obligations, project activities and tasks clearly defined? INTERDEPENDENCES BETWEEN TASKS AND ACTIVITIES

4) Location

It is often observed that the contractor accepts the project without having the necessary information about the activities related to the site. This is especially true for construction projects where a number of activities are known to have a direct impact on project completion dates. Some of these influencing the duration of the project are highlighted below:

- Site access and Right-of-Way

There have been numerous instances where delays in receiving ROW and/or non-receipt of clear land access have stalled major projects. Also, some of the major projects could not go beyond the groundbreaking ceremony because the compensation demanded by the landowners made the projects entirely unviable. It is therefore important that feasibility studies stimulate areas for compensation and clear access to land.

- Soil investigations

Here too, some of the projects have been completely derailed due to unavailability of the details required in the soil investigation reports, including soil resistivity and soil resistivity. We tend to assume that the soil investigation reports available for the field are good enough and finalize the project schedule based on the available soil data. However,

during the execution of the project, we find that the bearing capacity of the soil is much less and the need for piling works is imperative. Some of the projects have really suffered because of a simple requirement like piling work, as extra piling work not only affects the cost of the project but also adversely affects the duration of the project.

- Availability of local contractors, manufacturers, suppliers

Despite the best planning for the procurement of items / materials, it can be observed that we have to rely on local suppliers / manufacturers to meet unscheduled requirements and / or minor works that arise at the last minute. This is especially true for Class B and Class C items, as purchasing all items from suppliers in different states/countries only adds to shipping and/or local shipping costs.

- Others

In addition to the above, local holidays, weather conditions not limited to unusual rainfall and flooding of the construction site and its vicinity affecting the approach roads, safety of working personnel, strikes and workers' union strength and influence have affected , also the completion of the project and in the worst cases blocked some of the mega-projects where the influence and requirements of local stakeholders were underestimated by some organizations.

5) External Factors

In addition to the previously mentioned factors, there are a number of external factors that can have a negative impact on the project schedule. Although, it would be argued that these are beyond the reasonable control of the project team and leave little scope for exercising control over them. It is better to keep in mind these factors that can derail projects and, as a proactive action, attention must be focused to prevent and/or minimize its impact.

- Contingent liabilities

Normally, in construction projects, the contractor is usually required to provide GBE (Guarantee of Good Execution) to protect against default by the contractors. These performance guarantees related to:

a) Execution of the contract

GBE basically protects the owner (investor, financier) against non-performance of the contract by the contractor. Owners usually insist on the submission of the GBE against which the owners agree to pay the contractor in advance. The GBE typically has liquidated damages (LD) clauses that serve as a deterrent to contractors for default and empower owners to invoke the GBE if contractors fail to comply with the convenient schedule and take remedial action to contain . delays.

b) Performance of the delivered equipment

GBE (Guarantee of Good Execution) protects the owner against non-performance of the delivered equipment. Here too, GBE covers the lack of performance of some equipment, with a lower power, or higher heat rate, etc., than the requirements imposed. For example, typical performance parameters refer to the technical performance of the equipment. Clauses refer to:

i) Production capacities

ii) Efficiency rates

iii) Resource consumption

c) Warranty

To protect the contractor's non-performance during the warranty period. high failure rate affecting total revenue in terms of malfunctions due to non-compliance of delivered equipment.

As such, the contractor often carries contingent liabilities (typically around 10% of the contract value) in the form of a gbe (good performance guarantee) for the projects they undertake. in case of not being able to fulfill the contractual obligations, non-completion of the project time, non-performance of the installation and equipment, etc., the owner has the

right to invoke the gbes submitted. it is worth emphasizing here that the contractor's financial condition may be negatively affected if any of these contingent liabilities materialize. invoking such gbes not only results in tarnishing the image of the contractor companies but also affects their subsequent borrowing by banks and other financial institutions.

I. Downgrade of sovereign debt rating by an international rating agency

Any downgrade of the country's credit rating by international rating authorities adversely affects companies' abilities to raise debt funds from international markets. such a reduction affects not only the ability to raise bonds, but also directly impacts the interest rates at which companies can pay bonds and other debt instruments in the market. the cause-and-effect cycle does not end there, in turn, this negatively affects the ability of companies to raise finance to fund its growth. consequently, this could significantly affect its financial condition and operations (high working capital costs), hindering its growth prospects.

II. Material changes in national legislation and local regulations

It is known that significant changes in local laws and changes in government regulations - tax structure, accounting principles, etc. affects the good execution of projects. Any change in the regulatory framework may require a restructuring of activities, affecting the cost structure and reducing its overall profitability. For example, changes to the entire structure of salary contributions in Romania in 2018 led to the suspension of payments until the contracts were amended for almost two months. Some of the suppliers/builders were waiting for the clarity in the tax changes, but on the contrary, the lack of prediction led to the suspension of works on construction sites all over the country.

3. Conclusions

The project team takes the best actions deemed appropriate in the given situation to proactively identify and manage risks, following the principles of risk management. Although we believe that we have identified and covered almost all risks in our risk register, we find that risk review is usually only done when something has gone wrong or some risk has arisen that was not previously identified by us. Furthermore, as emphasized in the PMBOK, identifying and managing risks is an ongoing activity. During the phases of the project, some risks may have disappeared, while some new risks may have appeared and may appear in the current or future phases of the project. This reinforces the need to carry out a risk assessment on an ongoing basis. Some experienced project managers also point out that it may not be possible to transfer all risks, as risk transfer comes at a cost and cannot be done beyond some reasonable level. Therefore, it is essential to proceed with caution, accept the risks and create an adequate risk reserve. Raghuram G. Rajan reiterates the idea that "not taking risks we don't understand is often the best form of risk management."

A word of caution, it is good to stay focused and monitor risks continuously, at the same time it is essential not to overtly focus on risks, trying to cover the impact of all possible risks by building a safety net in the form of risk reserves. Often we find that risks never even arise and huge contingency reserves are released at the end of the project. We may not realize that the accumulation of such a risk reserve leads to higher estimated costs for the project.

Above all, given the fact that today, margins are under pressure and project cost is the biggest driving force in project selection, higher reserves can lead to project unviability and/or in the worst case could even lead to loss acceptance of orders for the organization bidding on the project. We cannot completely isolate ourselves and prevent risks from occurring, but we can certainly act carefully and minimize the negative impact of risks.

To achieve success in an ever-increasing uncertain environment, we must be alert to the associated risks and learn to operate with a saying "Risk management is a critical link in determining the success of the project, so be judicious and rational in your approach."

Finally, we can conclude with Daniel Wagner that - “Some risks that are thought to be unknown, are not unknown. With some foresight and critical thinking, some risks that may seem unforeseen at first glance can actually be foreseen. Armed with the right set of tools, procedures, knowledge and information, light can be shed on the variables that drive risk, enabling us to manage them.”

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