

Risk & Reward

As a construction worker, a CIO for the Wietz Company in Des Moines and now the Construction Engineering and Management Chair at Marquette University, Dr. Mark Federle has been keeping a close eye on market trends for over 20 years.

As the recession hit the construction industry, one of the things he and analysts nationwide noticed was contractors bidding for work they hadn't before. Another was contractors willing to sacrifice profit margins and perhaps, by doing so, taking on risks they weren't quite familiar with.

"You may choose to go ahead and do the work because you need the work," he said. "Now the question becomes 'What do I do about managing this extra risk?' It's important to have an accurate reflection of what's going to happen, and that's not easy to do if you're facing risks in a way you haven't faced them before."

Federle walked those in attendance through a few strategies for addressing that issue during *How To Mitigate And Manage Risk On A Project*, a Builders Association program for executives and project managers of both general and specialty contractors. In a two-hour presentation, Federle went over the finer points of:

- Risk identification
- Risk allocation and transfer
- Surety and bonding
- Funding losses through insurance
- The importance of safety and health plans

While Dr. Federle had plenty of insight to give, many of the insights came from the people listening to him. The presentation incorporated table discussions where attendees broke off into groups and created lists of best and worst practices for controlling risk on a project. Selecting the right jobs, smart bonding practices, contract compliance and subcontractor selection were the highlights of the "best" list.

The presentation pointed out that the simple things could be some of the most



Attendees discuss the best practices for managing risks on specific jobsites. Dr. Mark Federle (below), the McShane Chair in Construction Engineering & Management at Marquette University, gave a comprehensive presentation covering a number of "hot button" topics in risk management.



important when it comes to avoiding and managing risk. What constitutes maintaining proper documentation, for example, has changed with email. One company Federle had worked with had its General Counsel stipulate that all outgoing or incoming emails dealing with projects were to be kept somewhere in the company's system for 20 years.

"Email had only been around 15 years at that point, so we didn't even really know what it meant to keep things around 20 years," he said. "One challenge contractors face is that the level of effort it takes to locate that information and store it correctly has gone up immensely."

Other keys to controlling risk included:

- Understand the scope of the work as established in the contract
- Understand the best practices for the



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type of delivery system in use

- Establish a documentation system early in the project to manage anticipated risks
- Honestly measure job progress, including safety, production, quality and conditions on the site
- Track and report potentially significant events or risk occurrences with management
- Prioritize areas that represent greater risk

An analysis of safety numbers demonstrated the importance of a strong safety program. Working towards a low Experience Modification Rate (EMR) can save a contractor over two percent over an average contractor in a final bid, and close to five percent over an unsafe contractor.