

Lessons in Risk Management

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Three short real-life case studies demonstrating benefits of a little risk planning

A little foresight goes a long way

A well-established general contractor won a very competitive three-year contract for extending a public sewage treatment plant. Mechanical and electrical work were subcontracted and represented about 15% and 2% respectively. Construction proceeded well until the electrical contractor suddenly went bankrupt. The cost of recovery added another 2% to the cost of the main contract, substantially eroding the general contractor's profit margin.

Investigation of the bankruptcy revealed that both the electrical and mechanical subcontractors were involved in another large contract that had apparently gone sour. This gave rise to a significant probability that the mechanical contractor might also find itself in trouble, although there was no indication of that at the time. A two-pronged risk approach was adopted consisting of an 'early warning system' and a 'response plan'. The early warning system was established by subscribing to a credit bureau that would report confidentially on the financial condition of the mechanical contractor on a weekly basis. The response plan consisted of making the necessary union arrangements to enable the main contractor to protect all materials and equipment on site that would be otherwise sequestered by the bankruptcy receiver. The main contractor also made plans to take over the work instantly should the mechanical contractor collapse.

About a year later, the mechanical contractor went under. The early warning paid off, work crews were immediately transferred to the main contractor's payroll, and work continued with less than an hour's interruption. To the relief of the main contractor's owners, the end of the contract even brought in a small profit.

It's never too late to change strategy

A large consulting company was invited by government to propose on a project management assignment for a large airport extension. The consultant initially declined because their key staff were already on overseas assignments and considered that their chances of winning the award would not be high. However, the government department was persuasive because it needed a minimum of three proposals to be able to make any award. The consultant felt some obligation if it was to succeed in future opportunities.

Three of the four weeks of the proposal preparation time passed by and the consultant's available staff were struggling to assemble a credible response. It became very apparent that they were unlikely to make the deadline. The consultant searched its staff database for a project manager with experience. No one was available with airport experience, but there was a project manager with considerable project management experience. He was flown in with only four days and a long weekend to assemble the necessary submission.

The new project manager changed the orientation of the proposal. Instead of focusing on airport technology, he focused on competent project management methodology. The proposal was duly completed and submitted on time. The consultant breathed a sigh of relief and moved on to other business. Several weeks later, and to their surprise, they were awarded the assignment though their total fees were not the lowest. Government officials subsequently allowed that of the three submissions, the consultant's proposal had made the most sense.

Choosing the right response

Some years ago, a small but reputable canned food producer introduced a new product. Unfortunately, the risk of food poisoning was found to be higher than normal though still slight. The situation received media attention. Several times representatives of both the producer and the government inspectors attempted to allay public fears by quoting statistics to show that the risk to an individual was actually very low. This had little effect on sagging sales, and the product had to be abandoned.

What the official representatives failed to recognize was that the issue was the sanctity of food and trust in those that deliver it. It was an issue of unexpected risk suddenly being imposed without warning in a system and context assumed by the public to be a very low risk. The feeling was one of surprise and loss of control.

Compare that with the response of Warren Anderson, chair of Union Carbide, when he stepped to the microphone for the first time after the terrible Bhopal accident in India. He did not talk about facts, nor statistics, but about how he and the people at Union Carbide felt. What the cameras showed the world that night was a corporate executive sickened and saddened by tragedy. It was an honest response, spoken from the heart. More than anything, this gave him considerable credibility in the weeks that followed.

Research shows that the perception of risk is more emotional than rational, and that project risk communication must begin by recognizing the legitimacy of public emotions.