

CONTENTS

List of Figures	xi
List of Tables	xiii
Foreword	xv
Introduction	xv
The aim of the book.....	xv
1 Putting risk into perspective	1
Introduction	1
Risk and reward go hand in hand.....	2
Risk and construction.....	3
Risk - another four letter word.....	4
AGAP (All Goes According to Plan) and WHIF (What Happens If)	5
The people, the process and the risks	5
Clients of the industry.....	9
Have clients' needs changed?.....	11
Privately financed infrastructure projects.....	11
What do clients want?	13
Investment in property	13
Consultants and risk.....	17
Contracting and risk.....	18
2 The background to risk and uncertainty	21
Introduction	21
Defining risk and uncertainty	22
The uncertainty of life and construction projects.....	22
Dynamic and static risk.....	23
A threat and a challenge.....	23
Some of the basic rules for risk taking	24
Risk - 'Place your waterline low'	25
The risky shift phenomenon - what happens when groups make decisions.....	25

	The risk of not risking.....	25
	Risk styles.....	26
	Removing ignorance - and risk.....	27
	Probability.....	28
	Converting uncertainty to risk.....	29
	Decision-making in the construction industry.....	30
	Intuition	32
	Bias and intuition	34
	Experts and experience	34
	Rules of thumb	35
	Making a model	35
	Reacting to information.....	36
	Looking at the past to forecast the future	37
	Types of information	38
	Building a decision model to solve a problem.....	39
3	The risk management system	45
	Introduction	45
	Developing a risk management framework.....	46
	Risk identification.....	47
	Sources of risk	47
	Dependent and independent risks.....	50
	Risk classification	51
	Types of risk	51
	Impact of risk.....	54
	The risk hierarchy.....	54
	Risk and the general environment.....	54
	The market/industry risk.....	55
	The company risk.....	56
	Project risk and individual risk.....	56
	Consequence of risk.....	56
	Risk analysis.....	58
	Risk response	60
	Risk retention	62
	Risk reduction.....	63
	Risk transfer.....	63
	Risk avoidance	65
	Risk attitude	66
	Summarising risk management.....	66
	Risk management.....	66
4	Some of the tools and techniques of risk management	69
	Introduction	69
	Seeing the big picture and the detail	70
	Decision-making techniques	71
	The risk premium.....	71

	Risk-adjusted discount rate.....	72
	Subjective probabilities.....	74
	Decision analysis.....	75
	Algorithms.....	76
	Means-end chain.....	77
	Decision matrix.....	80
	Strategy.....	80
	Decision trees.....	83
	Bayesian theory.....	84
	Stochastic decision tree analysis.....	87
	Multi-attribute value theory.....	89
	Specify the utility function.....	90
	Case study.....	91
	Summary.....	97
	Sensitivity analysis.....	97
	Spider diagram.....	98
	Monte Carlo simulation.....	101
	Portfolio theory.....	102
	The application of portfolio analysis in the construction industry.....	103
	Stochastic dominance.....	104
	Cumulative distributions of illustrative portfolios.....	105
	Conclusion.....	106
5	Utility and risk attitude	107
	Introduction.....	107
	Risk exposure.....	108
	Utility theory.....	108
	Expected monetary value.....	110
	Payoff matrix.....	111
	The utility function.....	111
	General types and characteristics of utility functions.....	116
	The difference between EUV and EMV in practice.....	117
	The use of utility theory in construction.....	118
	Basic principle for the application of the theory.....	118
6	Risks and the construction project - money, time and technical risks.	121
	Introduction.....	121
	Money and delivery sequence.....	121
	Investment and development sequence.....	122
	Cost considerations.....	125
	Operational/revenue considerations.....	126
	The influence of taxation.....	126
	Value considerations.....	127
	Design and construction sequence.....	128
	Time delivery sequence.....	132

	Contractors and specialist contractors	134
	Technical delivery sequence	138
	A case study of the technical risks faced by the building surveyor.....	140
	Building surveyor.....	140
7	Sensitivity analysis, breakeven analysis, and scenario analysis.....	143
	Sensitivity analysis.....	143
	Breakeven analysis.....	143
	Scenario analysis.....	144
	Sensitivity analysis - an application to life cycle costing	146
8	Risk analysis using Monte Carlo simulation	153
	Probability analysis - extending the sensitivity technique	153
	How it works	153
	Using Monte Carlo simulation in the cost planning of a building.....	154
	Estimating and price prediction an overview of current practice	155
	Cost planning and risk analysis	156
	Interdependence of items	156
	Risk analysis using probabilities.....	158
	Risk analysis using Monte Carlo simulation	159
	Considering some probability distributions	159
	Common distribution types	161
	Uniform distribution	161
	Triangular distribution.....	161
	Normal distribution.....	162
	Beta distribution.....	163
	A step by step approach to Monte Carlo simulation	163
	Using Monte Carlo simulation on a live project	173
	The result	176
	Questions and Answers	177
9	Contracts and risks.....	179
	Disagreement and conflict	179
	The purpose of the contract.....	180
	The fundamental risks - liability and responsibility.....	181
	Transferring and allocating the risk in the contracts.....	182
	The principles of control - the theory.....	184
	The contractual links.....	185
	Risk avoidance by warranties and collateral warranties.....	185
	Risk transfer by surety bonds.....	186
	The types of contract.....	187
	Contracts and risk tactics.....	189

10	A case study of an oil platform	191
	A practical application of resourced schedule risk analysis.....	191
	Background	192
	The model.....	194
	Comparison with deterministic plan.....	194
	Data.....	194
	Weather.....	195
	Project variables	196
	Processing of data.....	196
	Confidence in the data	197
	Initial results.....	197
	Conclusion.....	200
	References and Bibliography.....	201
	Index	207