Trust, Transparency, and Velocity Help Reduce Risk

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Every construction project is a prototype of a snowflake. For all their differences, however, all projects share some basic characteristics. They all start with a dream or idea and a blank sheet of paper before eventually taking physical form.

The process that takes a project from an idea to a finished building entails substantial risk. Traditionally, a lot of that risk has been managed by developing detailed plans and specifications that define scopes of work prior to a competitive bid process. The idea was that having a complete definition of the scope combined with competitive bidding would eliminate a lot of risk while fostering competitive pricing. The downsides of this approach — antagonistic relationships between key stakeholders, and designs that are completely baked before receiving cost and constructability feedback — have pushed the industry to adopt alternative delivery methods such as construction manager at risk, design-build, and so forth.

In today's world of collaborative delivery methods, those traditional risk-management methods are no longer enough. In today's collaborative environment, construction firms must engage with a project long before the design phase is complete. How can general contractors control risk in these circumstances? How can they commit to a GMP based on schematic drawings while maintaining a robust risk strategy?

Three interrelated and mutually reinforcing concepts are crucial to effective risk management on today's collaborative projects: trust, transparency, and high decision-making velocity.

Trust

A lack of trust will slow any project down. If an owner doesn't trust the project team, they will second-guess every detail. Small decisions must be justified. Decisions that have already been approved may be questioned. One vice president at a general contractor described to me a plan review where a project team realized that they needed to add an outlet to a room. The owner asked this GC representative what it would cost, and they threw out "$1,000," eager to move on to more substantial issues on the $100-million job.

The owner started the next OAC meeting by emptying a Home Depot shopping bag onto the table and shouting about how they had bought everything needed for an outlet for $62, so

how could the contractor tell them it cost a thousand? The answer, of course, is in the labor, the inspections, the long electrical run. However, because the owner didn't trust the contractor initially, they derailed not only that decision but many future ones. If it took weeks to get the owner bought in on a $1,000 decision, what was it going to take on the hundreds of larger decisions that would be necessary to get a project of that magnitude built?

A team that is trusted can move faster and complete jobs with less stress. Stress can impair accuracy and productivity, reducing the efficiency of a project and adding to its cost, and even the best teams face burnout when relationships on a project continually take an adversarial turn. In a stress-free environment based on trust, however, teams work more smoothly and creatively, so projects can progress efficiently and productively.

Trust starts with owners, who often set the tone from the first days of a project. Whether that tone is trustful or adversarial, it will be extended as new stakeholders join a project.

I recently visited a CLT jobsite in Northern California. The project manager said it had been the most joyful project they had ever worked on. Among the entire onsite staff, there had been an overall air of collaboration and satisfaction. The project manager credited this back to the earliest phases of the project, when the owner committed to a high-trust environment with their design and preconstruction teams. This led to a collegial atmosphere and a sense of shared purpose that persisted throughout the project, despite substantial COVID-19-related challenges that impacted delivery. The owner set the tone early, and set it well.

Transparency

Transparency is hard to achieve. When it is, it reinforces trust even as it requires trust to establish. It is the responsibility stakeholders have to each other to show their work, so each of them can make informed decisions. Transparency doesn't mean sharing everything. For example, while owners deserve and require transparency into the cost drivers on their project, the precise bonding rate of their partners may not be appropriate information. Transparency does require showing a record of your work that is appropriate — and makes that record intelligible to a non-specialist audience.

Cost early in projects is often around estimates — and full estimates are thousands of lines full of detailed information. Is the construction team being transparent if they share the whole estimate with their design and owner partners? Probably not — it is very difficult for people who are not estimators to interpret that information. Real transparency requires active communication and presentation in a form that the other party can understand.

A key challenge throughout the industry is aligning expectations about the scope and cost of a project early. Historical data is an important tool that allows GCs to meet this challenge. Historical data that is easy to collect, easy to share, and easy to understand helps owners and other stakeholders recognize the reality of the cost and scope decisions GCs encounter during construction and reduces surprises that can negatively impact trust and productivity.

Decision-Making Velocity

The speed and accuracy with which decisions are made is critical throughout a project and particularly during design and preconstruction. A typical project includes about a thousand decisions that impact the owner's business case, design, or procurement. Many of these touch multiple trades or scopes of work and require input from more than one stakeholder.

If we do a little math, if those decisions are spread over a year-long preconstruction process, three must be made each day. An average decision takes a month to complete, so those choices can't be handled one at a time. About 100 have to be evaluated in parallel at any one time. This is a lot of juggling balls to keep in the air. Teams that trust each other move faster — they spend less time second-guessing each other. Teams that enable transparency also move faster — with access to the right information, fewer people need to be looped in for any given request. Fast decision-making rests on trust and transparency.

The faster these decisions happen, the more coordinated the project design, plan, and business case is. Additionally, the faster decisions can be made, the more aligned other streams of work will be. Teams are rarely standing still — while a

decision is hanging out there waiting to be made, teams are usually moving in one direction. If the decision is to move a different way, work has to be unwound, or may conflict with the decision. This leads to surprise rework, and surprises erode trust.

Without quick, authoritative decisions, execution starts without a crisp, comprehensive understanding of what's required. When that's the case, teams that should be focused on executing and supervising work onsite must also juggle the remaining planning work. It's an unequal distribution of labor, and the project is behind schedule when it starts.

A few years ago, I had a fascinating conversation with the former COO of one of the top 10 contractors in the United States. He highlighted to me that the firm had done a multiyear study trying to find common root causes in projects that went south — the one project out of 10 that would consistently but unpredictably take the firm's overall performance from excellent to as-predicted. The study identified five causes, and they all pointed back to preconstruction. One example: signing a contract that reflected a substantial amount of value engineering, even though the associated design changes were not embodied in the documents. Teams never realized the full expected impact, so they would spend the rest of the job clawing their way out of a financial hole.

Risk in a world of negotiated and design-build work is different. It needs transparency, trust, and systems to manage and inform design and preconstruction decision making. Done well, it sets owners and clients up for an excellent customer experience and sets up firms for predictable, profitable business.

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