



Restarting Stalled Projects



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Projects can Stall during Economic Upheaval

"Oh, really?" you ask. This is a fact we all know, and many of us have learned it the hard way. It is a fact that most of us now think goes without saying. Yet, it bears repeating, because knowing that it happens does not explain why it happens. During the recent economic turmoil in various world markets, a number of major projects have become stalled. As national and regional economies re-stabilise, an impetus develops to attempt to restart such projects in order to obtain the benefits intended from the projects. If we are to restart them and successfully manage them to completion, we must understand the fundamental causes of their original failure. The economic instability was not the ultimate cause – it was just the trigger. The cause lies in the failure to allocate risk appropriately or to manage it successfully.

Stalled projects have included power plants, manufacturing plants, commercial real estate, housing and port developments, roads, rail, bridges, tunnels, airports, wastewater treatment and water production, mining projects and other resource recovery projects and, last but not least, military projects. While this paper pertains most specifically to infrastructure projects, the issues discussed are pertinent to all of these project types. The projects all share several characteristics:

- political attention, often including governmental participation in the project;
- large size/scope;
- having been cancelled, stopped, abandoned, suspended, interrupted or otherwise stalled; and
- having consumed major investment with a resulting impetus to recover the investment.

The principal impetus to restart a stalled project is the last of these – the need to recover the substantial investment that has been made. The investment can be in the form of political capital, financial funding, the commitment of resources or a variety of other forms.

The impetus is usually strongest from the party with the greatest investment and, consequently, the greatest exposure to damage if the project is not carried forward. Often, the impetus to restart the project is premature, driven by the desire of one of the parties to recover its investment, but before all of the necessary conditions are in place to permit a successful restart.

Much attention is currently being focused around the world to the restarting of these stalled projects. For example, the Ninth Annual Meeting and Conference of the Inter-Pacific Bar Association, meeting in Bangkok, Thailand, in April and May of 1999, had as its principal topic: "International Construction Projects: Re-starting Projects".

Space and time do not permit this paper to be exhaustive. Rather, only a sampling of the issues that must be faced in order to restart successfully a project that has been stalled by economic factors shall be produced. If we are to be able to restart stalled projects we must first understand the causes of their stoppage and the role in their stoppage played by the economic upheaval or other triggering mechanism.

Causes of Project Stoppage

There are a number of factors that can cause a project to be stopped, either temporarily or permanently, during a time of economic instability. These same factors, if not properly balanced in a risk-management exercise, can cause a project to be stopped in a period of economic stability. When economic factors become unstable, however, even the best allocation and management of risks can fall apart because the impact and effect of risks can be altered by the economic instability.

The ultimate cause of the stoppage of a project is that at least one of the risk factors faced by at least one of the parties becomes so great and overwhelming that it becomes impossible to continue the project at that time. The removal or amelioration of that risk factor

does not automatically produce the conditions necessary for a successful restart because other conditions may have affected other risk factors in the mean time. As Sir Michael Latham pointed out in his Final Report of the Government/Industry Review of Procurement and Contractual Arrangements in the Construction Industry:

“No construction project is free of risk. Risk can be managed, minimised, shared, transferred or accepted. It cannot be ignored.”¹

Many uncertainties face construction projects at their start, and these uncertainties contain risks. Some can be managed, some can be minimised by the adoption of contingency funding or planning, some can have their impact on one party reduced by sharing them with other parties, some can be transferred from a party facing the risk to another party that can more appropriately control it and the rest must be accepted if the project is to proceed. Risks should only be accepted if the accepting parties have the capacity to

other parties who will come along later. The process of bidding and negotiating the project execution then involves the pricing, insuring, containing and managing of those risks. Negotiation can result in a more appropriate allocation of the risks. A sophisticated and non-politically-motivated project owner will attempt, in the beginning, to allocate risks appropriately in order to minimise the risk of project failure. A sophisticated contractor will attempt everything possible to shift risks away from itself and onto insurance companies, other contractors and sureties. Nothing, however, can eliminate the risk except the successful conclusion of the project, and then the completed project faces the set of risks associated with its continuing existence, use and function.

In a well-conceived project with properly balanced risks, an economic upheaval of a local, national, regional or global nature can unbalance the risks or introduce new, previously unanticipated risks. Approximately 20 years ago, the principal author of

Risk is the currency of projects and managing those risks successfully is the only thing that will result in a favourable balance of risks at the completion of the project.

absorb the consequences of the risk. When a risk escapes its ‘containment’, its consequences may be beyond the capacity of one or more of the parties to absorb. It is this that results in the ‘stalling’ of the project. As Sivakumar Murugaiyan has pointed out:

“Studies show that as many as 100 different risk types can be identified. These risks may result in the project being delayed or even terminated.”²

Improper Allocation of Risk

Most projects that fail do so because at least one of the risks facing the project has been inappropriately allocated to one or more of the parties. In the ideal project world, all risks will be allocated to the parties best able to deal with them. We all know that this seldom happens in the real world. The party controlling the project formation invariably tries to shift as much risk as possible away from itself to the

this paper was managing the execution of a major project in a country in the Middle East that had been viewed as politically stable and progressive. Street demonstrations and political activism aimed at changing the government were seen as signs of its growing political maturity and toleration of disparate views. Then, over a period of a few short months, the government of the country was replaced by revolution. Virtually every risk had been anticipated and managed except the risk of revolution. Because of the perceived stability of the government, the risk of revolution had been seriously undervalued, along with the real influence of conservative Islamic clergy. That risk had always been present, but was ‘under-perceived’.

In order to balance and manage risks appropriately for a project, the risks must be correctly evaluated. This is difficult to do because changes in conditions outside the project can affect the risk levels on the project and

1. As quoted by Sivakumar Murugaiyan, *Restarting Construction Projects in Singapore (Reasons for Collapse and Solutions for Revival)*, p. 1, *Inter-Pacific Bar Association 9th Annual Meeting & Conference, Bangkok 1999*.
2. *Ibid.*