

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Law



Diploma Thesis

Risk Allocation in Construction Contract

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Risk Allocation in Construction Contract

Objectives of thesis

The goal of this Report is to look into the risk allocation department in contracts for the construction sector, as well as the nuances surrounding the topic of risk allocation departments. This thesis will study the contract-related issues that arise in the construction industry because building involves a broad variety of various responsibilities and businesses.

Specific Objectives

To analyze different type of risks that are being experience in the construction industry Contract.

To Identify the challenges that are being faced in a construction project due to the risk allocation Contract.

To Evaluate the different technologies and practices which can be implemented to reduce the risk allocation in construction contract.

Methodology

For the purpose of this thesis, a qualitative research design is employed in conjunction with a primary data collection method to carry out the investigation.

For the most recent significant data points, closed-ended questions and a survey were utilized to generate a collection of relevant information. Conducting an openings-based study of risk allocation in the construction contracting business is made easy with this method of investigation. This sort of responder was chosen because they will be able to deliver accurate and authentic answers, which will help to increase the accuracy of the data collected from them. Because they will be in a better position to provide accurate and authentic replies, those working in the construction business were chosen to increase the accuracy of the data collected.

The proposed extent of the thesis

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Keywords

Risk allocation, Challenges, Technologies, Risk Types, Sustainability.

Recommended information sources

- Hatzis, A.N. 2002, "Having the cake and eating it too: efficient penalty clauses in Common and Civil contract law", *International review of law and economics*, vol. 22, no. 4, pp. 381-406.
- Nordin, E. 2014, "The Penalty Clause Bias", *Maastricht journal of European and comparative law*, vol. 21, no. 1, pp. 162-187.
- Veel, P. 2008, "Penalty clauses in Canadian contract law", *University of Toronto Faculty of Law review*, vol. 66, no. 2, pp. 229.

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3

Declaration

I declare that I have worked on my master's thesis titled "Risk Allocation in Construction Contract" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 31/03/2022

Michael Farid Refaat Iskandr

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Risk allocation in construction contract

Abstract

Risk management is an integral part of the construction contract to maximize the performance of the construction project with risk assessment. When forming the business contract, it is necessary to address the problem of risk allocation. In trying to maximize the benefit of the agreement while lowering their own risk, member nations are continuously in conflict with one another. Therefore, any discrepancies about risk distribution in a business agreement are the source of all commercial contractual problems. This thesis covers the different risks, difficulties, and technology connected to the Risk assessments in Construction Contract. The research conducted with the formulating a research objective and aim. This thesis aims to explore the risk allocation departments in construction project agreements, as well as the complexities surrounding the topic of risk allocation divisions in particular. Because the construction business involves various activities and companies of varied sizes, this thesis will study the contract-related issues that develop in the construction project. Therefore, conduct the inquiry for this thesis, a qualitative methodology in combination with a primary data collecting technique is used to gather data. Interviews were conducted using email to collect helpful information for the most current major information points, then compared to previous data points. Using this analysis technique, it is simple to conduct a position available study of project risks in the building contracting company.

Key words: Risk allocation, Risk assessment, Challenges, Technologies, Risk Types, Sustainability

Alokace rizik ve stavební smlouvě

Abstrakt

Řízení rizik je nedílnou součástí stavební smlouvy, aby se maximalizoval výkon stavebního projektu s hodnocením rizik. Při tvorbě obchodní smlouvy je nutné řešit problém alokace rizik. Ve snaze maximalizovat užitek z dohody a zároveň snížit vlastní riziko jsou členské státy neustále ve vzájemném konfliktu. Jakékoli nesrovnalosti o rozložení rizik v obchodní smlouvě jsou proto zdrojem všech obchodních smluvních problémů. Tato práce pokrývá různá rizika, potíže a technologie spojené s hodnocením rizik v kontaktu ve stavebnictví. Výzkum proběhl s formulováním výzkumného cíle a záměru. Tato práce si klade za cíl prozkoumat oddělení alokace rizik v dohodách o stavebních projektech a také složitost kolem tématu divizí alokace rizik. Vzhledem k tomu, že stavební činnost zahrnuje různé činnosti a společnosti různých velikostí, bude tato práce studovat problematiku zakázky, která se ve stavebním projektu vyvíjí. Provedte proto dotaz pro tuto diplomovou práci, ke sběru dat se používá kvalitativní metodologie v kombinaci s primární technikou sběru dat. Rozhovory byly vedeny pomocí e-mailu, aby se shromáždily užitečné informace pro nejaktuálnější hlavní informační body, poté byly porovnány s předchozími datovými body. Pomocí této analytické techniky je snadné provést poziční studii rizik projektu ve stavební společnosti.

Klíčová slova: Alokace rizik, hodnocení rizik, výzvy, technologie, typy rizik, udržitelnost

Table of Contents

1	Introduction.....	13
2.	Objectives and Methodology	13
2.1	Objectives	13
2.2	Methodology	14
3	Literature Review.....	15
3.1	Construction Projects	16
3.2	Risk Management Framework in The Construction Contract	18
3.2.1	Definition of Risk	18
3.2.2	Risk Identification.....	19
3.2.3	Risk Assessment/Analysis	20
3.2.4	Risk Allocation	23
3.2.5	Risk Response.....	25
3.2.6	Risk Control.....	26
3.2.6.1	Monitoring and Renown of The Risk	26
3.3	Project Contract Lifecycle	27
3.4	Basic Requirements for an Effective Risk Management in The Content of Contract...28	
3.5	Types of Construction Contract	30
3.5.1	Lump Sum Contract.....	30
3.5.2	Lump Sum and Scheduled Contract	31
3.5.3	Cost Plus Fixed Fee Contact	31
3.5.4	Cost Plus Percentage of Cost Contract	31
3.6	Contract and Risks	32
3.7	Project Contract Lifecycle	34
3.7.1	Project Lifecycle and Risk.....	35

3.7.2 Traditional Contract Practices in The Construction Contract.....	35
3.7.3 TCC (Target Cost contract) and GMP (Guaranteed Maximum Price Contracts).....	36
3.8 Key features of GMP/TCC	38
3.8.1 Tendering Method.....	38
3.8.2 Pricing Mechanism	40
3.9 Risk Assessment in The Construction Contract.....	41
3.10 Challenges in a Construction Croject due to The Risk Allocation Contract	43
3.10.1 Undefined Quality Requirements	43
3.10.2 Low Percentage of The Advance Payment.....	44
External: Unpredictable	44
External: Predictable but Uncertain	44
Internal: Technical	45
3.11 Risk Response Strategies and Critique	45
3.11.1 Behaviour and Risk Management.....	46
3.12Risk Management Theory.....	47
3.12.1 The Iron Triangle	47
3.13 Risk Management with Contract Types.....	48
3.14 Various Dimensions of Contract Risk Management	49
3.14.1 Subcontracting	50
3.15 Importance of Subcontracting in Construction.....	51
3.16Managing Construction Risks with Subcontracting	52
4Practical part	54
4.1 Research Questions.....	54
4.2 Interview Questionnaires	54
5. Result and Discussion.....	67

5.1 Result	67
5.2 Discussion	68
5.2.1 Awareness of The Concept of Rsk Management.....	68
5.2.2 The degree toward which risk management techniques in building contracts are employed.....	68
5.2.3 The effects of different areas and causes of risk on project objectives	69
5.2.3.1 Contract and Project Risk	69
5.2.3.2 Risk Allocation in Contracts: Disclaimer Clauses.....	70
5.2.3.3 Have Contracts Reviewed by a Knowledgeable Attorney.....	72
6 Conclusion	74
7 Reference List	75

List of Figures

Figure 1: Project life cycle.....	17
Figure 2: Risk Management Process.....	19
Figure 3: Subjective risk	20
Figure 4: Objective project's risk	20
Figure 5: Matrix of probabilities and impacts.....	22
Figure 6: Risk ranking matrix	23
Figure 7: Tendering method.....	40
Figure 8: Risk allocation in the construction contract is conducted in initial phase for construction project.....	56
Figure 9: what are the two important risk that influence the construction contract in project	57
Figure 10: selection of the contract type can assist for allocation of the risk?	58
Figure 11: Important to build owner contractor relationship for successful implementation of project	59

Figure 12: Changes of the legislation policy and regulation affect construction contract in the project?.....	60
Figure 13: what extent termination of the contract can impact the outcome of the construction project?.....	61
Figure 14: what are the two most prominent challenges faced by the construction project for risk allocation contract?	62
Figure 15: Agree risk allocation within construction project is in the construction party control?	63
Figure 16: Provide the likelihood impact of below describe four project risk in the construction project?.....	63
Figure 17: the formal predefined process needs adopt in construction project for risk allocation in contractual procedures?	64
Figure 18: What is the most successful procurement methodology for allocating risk in construction contract?	65
Figure 19: Two prominent factors for using a contract time in construction project?	66
Figure 20: Incidental risks that connected to the poor outcome of the project.....	67
Figure 21: various disclaimer clause.....	71
Figure 22: various trust types.....	72

List of Tables

Table 1: Risk allocation in the construction contract is conducted in initial phase for construction project.....	55
Table 2: what are the two important risk that influence the construction contract in project..	56
Table 3: selection of the contract type can assist for allocation of the risk?	58
Table 4: Important to build owner contractor relationship for successful implementation of project	58
Table 5 Changes of the legislation policy and regulation affect construction contract in the project?.....	59
Table 6: what extent termination of the contract can impact the outcome of the construction project?.....	60

Table 7: what are the two most prominent challenges faced by the construction project for risk allocation contract?61

Table 8: Agree risk allocation within construction project is in the construction party control?62

Table 9: the formal predefined process needs adopt in construction project for risk allocation in contractual procedures?64

Table 10: What is the most successful procurement methodology for allocating risk in construction contract?64

Table 11: Two prominent factors for using a contract time in construction project?65

Table 12: Incidental risks that connected to the poor outcome of the project67

1 Introduction

In particular, many shortcomings have persisted in the construction industry, particularly inequitable risk distribution, poor confidence and incompatibility of goals among contract parties, and a lack of willingness to enhance construction productivity. Consequently, projects have been significantly delayed or overrun, and allegations have been challenging to manage, producing a win-lose situation.

Risk is defined as any unpredictability in a project that causes a disturbance in the project's life cycle. Consequently, risk management is an effective tool that helps the project complete its project scope without experiencing any hazards (Yin et al., 2020). Risk management consists of recognizing, assessing, strategizing, evaluating, and implementing a plan of action. The primary purpose of risk management is to improve the possibility of a positive event while decreasing the likelihood of an adverse event. Every action linked with construction projects involves some amount of risk, although the element of uncertainty varies from one activity to the next. Every action in a project may influence the performance of a corporate strategy and the attainment of project goals.

Thus, depending on both literature and interviews from the email, the thesis takes a qualitative approach to understand how the prominent project members are dealing with risk in their respective roles. Furthermore, this research investigates potential flaws in risk management practices and provides technical solutions to address specific issues when they arise. Several consultants who deal with developers and contractors comprise this research to provide their perspectives. Furthermore, risk and opportunity monitoring are frequently conducted inside the same paradigm, which does not enable appropriate risk management and efficient potential utilization. Therefore, it is maintained in the industry that specialists have a risk proclivity that stays constant as they gain experience, but that there is a change in how risk is interpreted due to this transformation.

2. Objectives and Methodology

2.1 Objectives

The goal of the thesis is to look into the risk allocation department in contracts for the construction sector, as well as the nuances surrounding the topic of risk allocation departments.

This thesis will study the contract-related issues that arise in the construction industry because building involves a broad variety of various responsibilities and businesses.

Specific Objectives

- To analyse different type of risks that are being experience in the construction industry Contract.
- To Identify the challenges that are being faced in a construction project due to the risk allocation Contract.
- To Evaluate the different technologies and practices which can be implemented to reduce the risk allocation in construction contract.

2.2 Methodology

Literature reviews are conducted using a methodology involving data from specialist journals, websites, publications, and other printed or online sources. The research is divided into two segments, including the theoretical and practical portions. The theoretical part is based on the literature review providing risk assessment process in the construction project highlighting the challenges faced by the construction contract in the implementation face.

Whereas the practical part represents the data collected from interviews circulated via email as the targeted respondent is in the field of construction, the participants' answers are collected and analysed graphically. Furthermore, it provides information about limitations and opportunities for the construction contract to evaluate risk. Formalizing the conclusion for a dissertation is accomplished via applying the research and synthesis approach.

3 Literature Review

This chapter presents the results from different peer-reviewed literatures on the topics of construction, program delivery models, agreements, risk, and risk assessment. The amount of risk involved with just about any project is defined, among other things, by the kind and techniques of construction, the stage of construction, the contract type and provisions, and the nature and complexity of a project (Wang et al., 2020). Consequently, the risk mitigation technique which should be employed is defined by above - the features. As a consequence, the review of the literature tried to bring emphasis to these risk-related problems, with major focus on risk management activities starting with the contract phase.

The construction industry is a vital part of an overall economy in every country. It contributes significantly to the growth or growth of the economy of developing countries. Several study studies have demonstrated that the construction sector plays a significant role in developing countries since it generates a major amount of the nation's Gross national product at minimum three - fourths of the world's construction employees reside in less developed countries.

Construction is a substantial component of investments; as just a consequence, the increase of construction activity is intimately linked to economic growth. Several studies have shown that as countries put its core infrastructure during the early stages of growth, construction output rises unusually fast, often surpassing the rate of growth of economy as a whole (Wang et al., 2020). It is s It that the construction sector makes a substantial contribution to a country's economic development.

Despite advancements in construction risk management techniques in the rich construction industry, construction projects in poorer nations continue to just be plagued by ill-defined scale, poor design, and management. As a result, there really are substantial gaps inside the project's implementation in terms of time, cost, and performance.

Almost everything construction endeavours are loaded with danger. Buildings are impacted by both daily and seasonal weather variations, as well as other variables, due to their exposure to the environment. The accessibility of construction funds, labour, materials, and equipment, among other criteria, in a specific region is frequently a decisive factor (Wang et al., 2020). Construction, when combined with other concerns mentioned above, is a highly dangerous

endeavour to engage on. Construction is especially important in developing countries since it has the ability to greatly contribute to economic growth. However, as previously said, the industry is plagued by a plethora of problems. As a consequence, some way of monitoring and regulating risks and challenges must be adopted to guarantee that the construction is effective and efficient. According to Hillson D. (2009), since all projects are risky, the most successful projects are those in which the risk is handled effectively all through the process.

Building projects are launched in complicated and dynamic environments, resulting in circumstances fraught with uncertainty and hazard. Risk is present in all construction projects, no matter how big or small in size they are. Surprise risk is the probability of uncontrollable, unforeseen, and unexpected occurrences, which seem to be especially crucial to handle in the management of large-scale projects since these unexpected risk events might have disastrous effects for the team's achievement. These risks have a direct influence on the project's success (Li and Sai, 2020). Overruns and schedule delays are common in many undertakings. A massive quantity of research done in various regions of the world revealed that risks have resulted in significant cost and time overruns for project implementations globally.

There is a considerable quantity of literature regarding risk and risk evaluation in initiatives because enterprise risk factor study has (and is to be) of interest to both academics and practitioners (Li and Sai, 2020). In recent times, the problem of managing risk has attracted a lot of attention in the area of project management, especially in light of the global financial crises. When studying potential possibilities for closing the gap, it is critical to understand existing risk analysis methods as well as the improvement of construction object model and evaluation.

3.1 Construction Projects

It is likely to start with a conversation of kinds of projects so because focus of this research is risk assessment in the case of construction initiatives.

As defined by Turner (1992), a proposal is "an undertaking in which sentient and content funds are arranged in a fresh way; to conduct a distinctive context of the venture with such a particular specifications and time restraints; to accomplish single unified, positive outcome thru the transfer of quantitative and quality impacts." A proposal is "an undertaking wherein person,

content, and economic ability are arranged in an innovative way to accomplish a particular context of job with a particular spec and time limits."

The statement implies 3 important project goals, notably, duration, expense, and reliability, that should be managed to keep in mind when the construction is first initiated and throughout its duration. It also highlights the importance of effectively allocating obtainable resources for achieving a satisfactory final outcome in the long run.

Given the natural world of the construction business sector, risk management is an essential component of the procedure. It is most frequently employed in initiatives where there is a high degree of ambiguity (Li and Sai, 2020). These risk funds are differentiated by the use of more official procedures for making plans, tracking, and controlling their operations. The quickest and most straightforward method of identifying risk is to examine and make inferences from ended in failure initiatives in the previous era. It is necessary to consider the investments of risks involved with all actors throughout the PLC (project life cycle) in order to make sure that the construction outcomes are encountered.

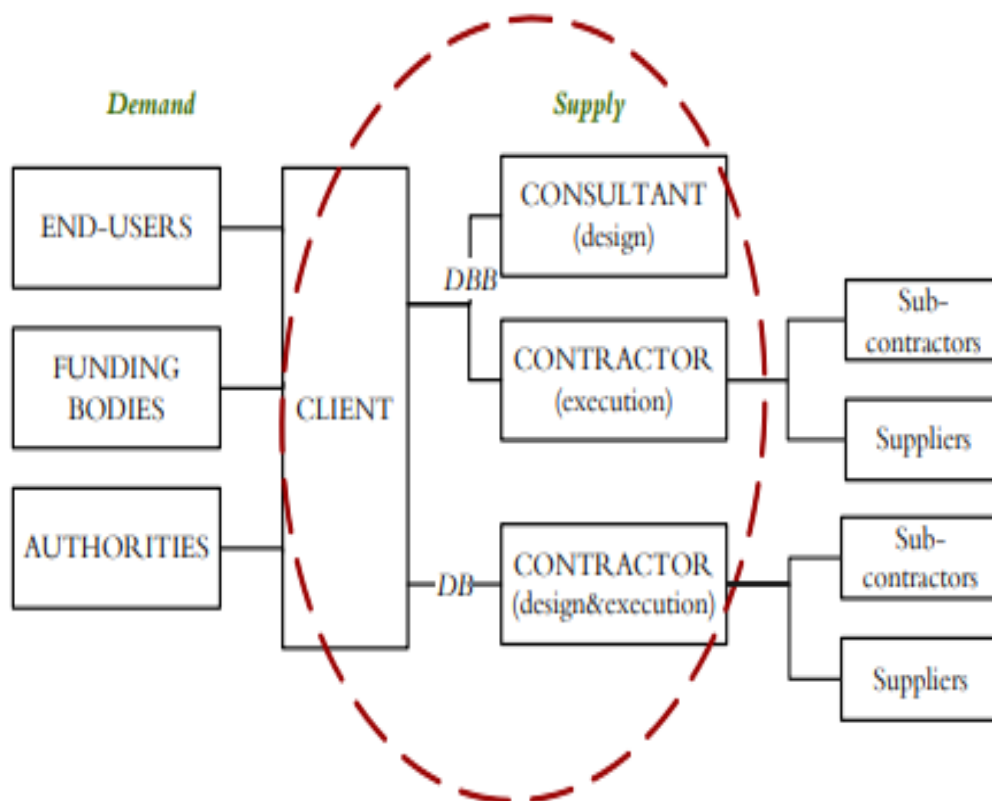


Figure 1: Project life cycle

Image source: (Yan and Zhang, 2020)

3.2 Risk Management Framework in The Construction Contract

3.2.1 Definition of Risk

Several factors can be used to define risk, including ambiguity in results, a potential pessimistic occurrence that could have an impact on the proposal, "the prospect that something terrible happens," and the "possibility that a pessimistic result occurs during a specified period of time." The results of Vale and de Carvalho's research survey revealed that the terms uncertainty and risk are frequently used interchangeably in studies, with danger being closer to the results or ending up causing them with existing facts and a possibility delegated, and uncertainty being the absence of understanding.

One of their findings, perhaps, is that danger and confusion are frequently explored and split into two distinct organisations; however, techniques for assessing the two are severely deficient (Li and Sai, 2020). According to the Project Management Institute, risk leadership is an attempt to reduce negative risk while simultaneously increasing the likelihood of favourable risk in order to meet construction goals. Consequently, danger can be viewed as something that, if handled properly, has the potential to have a positive impact on the venture, which is commonly referred to as an opportunity.

According to the definition of risk management, it is an ongoing process that includes identifying risks, assessing risks subjectively and quantitatively, evaluating risks, and controlling risks. A risk identifier and an initial alert scheme are the first two stages of the process, which are followed by risk estimation and devising variations (Yan and Zhang, 2020). The next three stages are risk interpretation, risk choices and behaviour (risk control), as well as regulating tracking and evaluation of actions taken to address risks. Throughout this expert dissertation, the incremental four stages of risk identifier, risk evaluation, risk reaction, and risk regulation will be utilised.

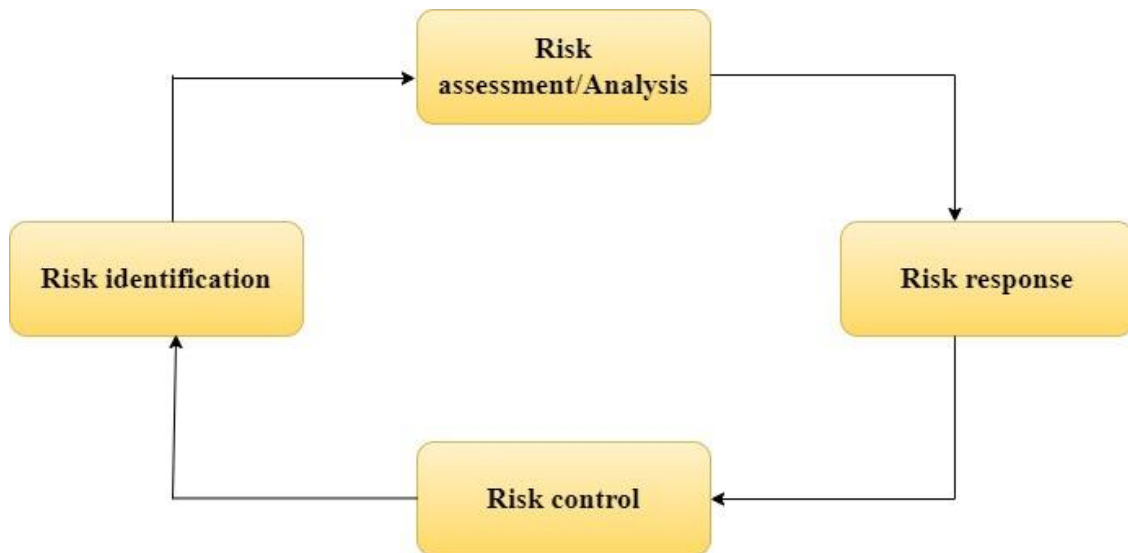


Figure 2: Risk Management Process

Image source: (Self-created)

3.2.2 Risk Identification

The risk identification phase is the first step in the risk management process. During this phase, the risks associated with the project are identified. Per PMI (2017), the risk identification phase included a data collection phase, which could consist of a brainstorming session, worksheets, or group discussions. Such meetings may be attended by project managers, construction group representatives, and risk specialists, among others. Other project members must be invited to participate in the risk identification phase on either side of the spectrum (Yan and Zhang, 2020). Throughout the information gathering phase, all stockholders are required to record the risks identified in a standardised manner for subsequent procedures to be used. By utilising risk training, it is possible to document and document the recognised risks in a recognised risks document. The risk registration should include:

- The risks that have been identified.
- The person who is responsible for the risk.
- The procedure to be followed in the event of a risk.

Due to the fact that risks that are not identified and addressed could have a negative impact on the venture, risk assessment is an essential component of the risk assessment procedure.

3.2.3 Risk Assessment/Analysis

Zhang (2011) conducted a review of relevant literature that focused solely on two schools of risk assessment that have been recognised in studies: risk as absolute reality and risk as a construction that is open to interpretation (Tang et al., 2020). Construction managerial schemes, perceptual perspectives, irrational actions in risk management, and construction that is open to interpretation are the four categories of previous research that have been classified so far. These four sections are subdivided into two schools of thought: impartiality and relativism.

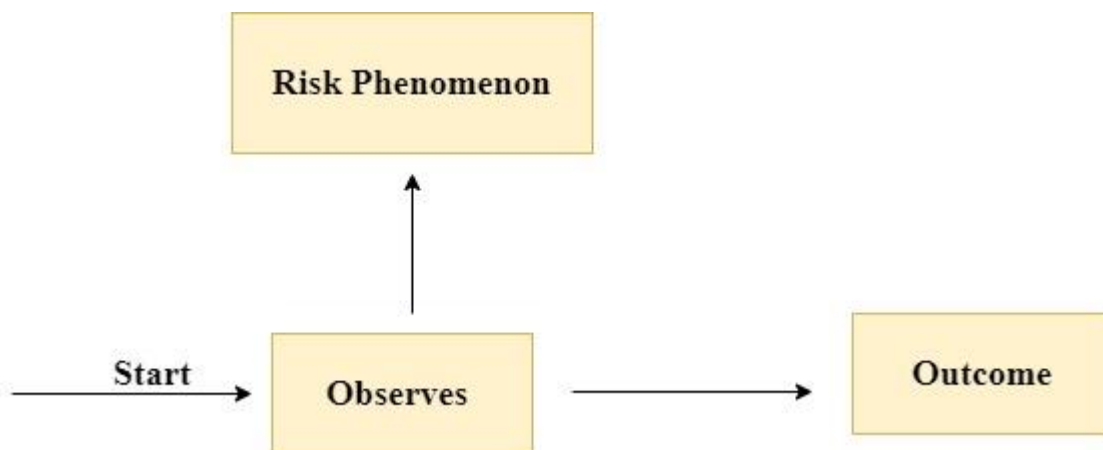


Figure 3: Subjective risk

Image source: (Self- created)

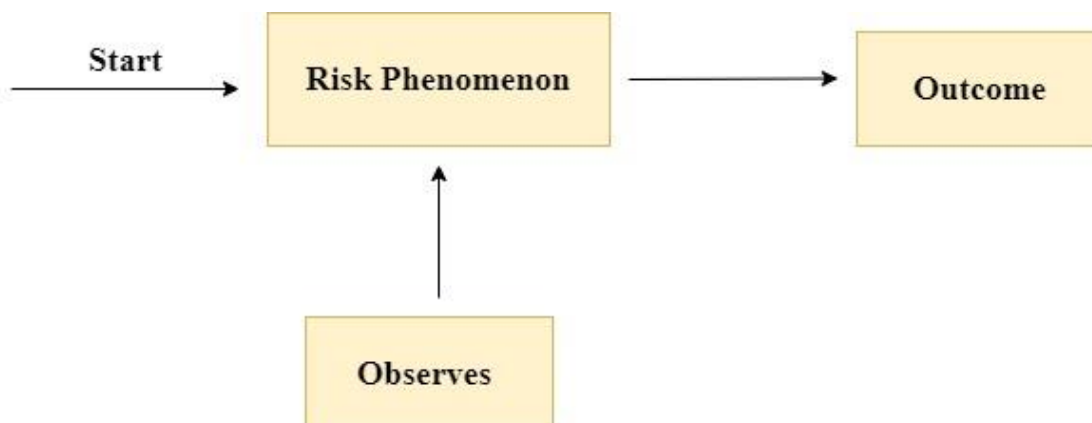


Figure 4: Objective project's risk

Image source: (Self- created)

The quantitative and qualitative approaches to risk assessment are two of the most widely used approaches in the field. These techniques are used to assign a possibility as well as an effect to the risks that have been identified. The likely hood prototype, which has its origins in the anticipated power hypothesis, is used to measure risk by looking at the likelihood and severity of events occurring in the future (Tang et al., 2020). This means that the risk is proportional to the likelihood of an event occurring multiplied by the magnitude of the consequences.

A probability impact matrix is a graphical representation of probability analysis results in general (PMI, 2017). It is impossible to anticipate all risks that may arise during a construction project; therefore, the anticipated risks must be adequately evaluated. Although there are a number of unpredictable variables, or the consequences of risks, that have been identified, they can still catch you off guard. Climate can be successfully analysed and examined, but it can also provide different climate situations that are extremely doubtful and could have been evaluated in a milder version of the simulation.

A qualitative approach is typically preferred when risk assessment is performed within the development team. A quantitative approach is typically preferred when risk assessment is performed outside of the development team. (Tang et al., 2020) Even when advisors are involved, however, it appears that the quantitative research method is preferred over other options. But, despite this, it appears that quantitative risk assessment is becoming increasingly popular. Even though risk assessment professionals believe they have a thorough understanding of risk management principles, they frequently lack formal professional education outside of what they learn on the job.

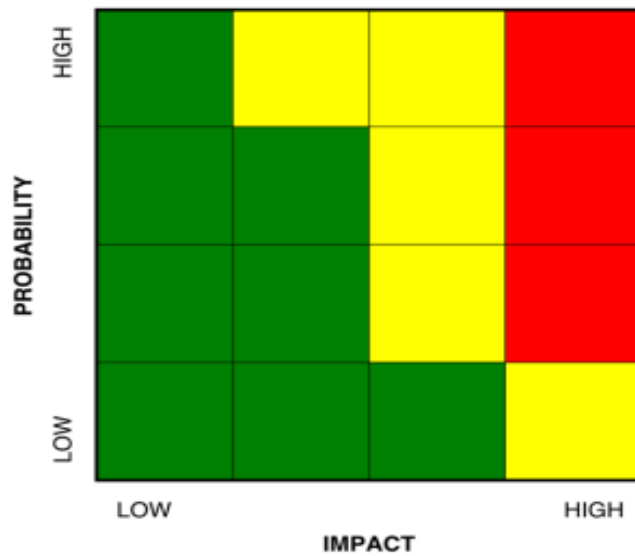


Figure 5: Matrix of probabilities and impacts

Image source: (Tembo-Silungwe and Khatleli, 2018)

As per Francis K. (2008), among the numerous methods that can be used to predict the validity of risks occurring are quantifiable possibility evaluations based on historical information and probabilistic perceptual evaluations that rely on expert judgement. A traditional risk assessment based on expertise could be used to assess the significance of the dangers in the process of reducing command from a high level of danger to a low level of danger and vice versa. It is possible to categorise risks into three categories (Tembo-Silungwe and Khatleli, 2018): minor, moderate, and significant, and then determine the appropriate course of action using a risk evaluation framework, such as that depicted in figure 2.1. Small risks can be acknowledged, while moderate risks necessitate the development of some managerial metrics. Large threats with a high likelihood of occurrence and significant intensity necessitate the development of a severe risk activity timetable to deal with the threat. If the risk is too great, the group may decide that it is better to abandon the proposal than proceed with it.

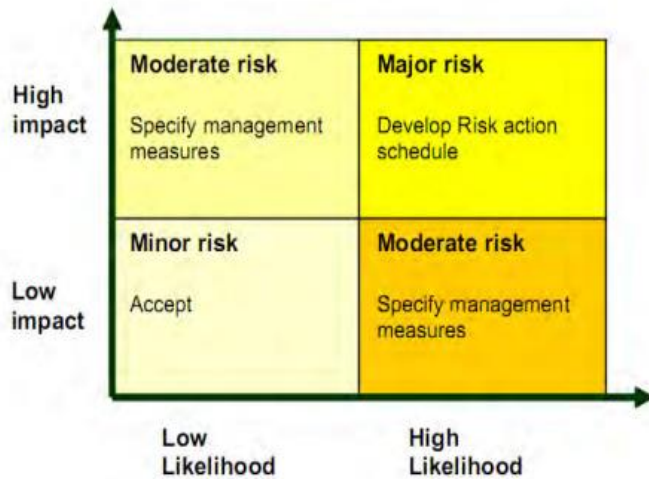


Figure 6: Risk ranking matrix

Image source: (Yin et al., 2020)

To assess the seriousness of the risk, thorough computations of the expenses to be accrued and the lost time for every major risk are conducted, presuming that the risk is high (Yin et al., 2020). A range of measures can be used to calculate the effect of the risk on a venture's goals, including judgement trees assessment, statistical inference, susceptibility assessment, situation and computational methodologies, and standings alternatives. One aspect of the risk assessment technique is a data structure.

3.2.4 Risk Allocation

The allotment of risk in a monetary payment is referred to as risk allotment.

After identifying risks, it is important to ascertain which sides retain obligation for those risks in exercise as well as through contractual provisions. By assigning potential risks to the party better placed to regulate them, it is able to lower both construction expenses and risks. This is referred to as (ORA) optimal risk allocation. That's because the group with the most control over a specific risk does have the greatest potential to cut the probability of risk occurrence and regulate the impact of a risk if it does happen. When possibilities and risks are apportioned in conformance with others, there seems to be a motivation for the regulating participant to use its impact and ability to avoid or lessen risk in sequence to advance the real preference of the venture.

As per James P. Bobotek (2011), the risk measurement procedure is a necessary form of risk. In this procedure, one group agreements out the obligation for an identified hazard to some other party, who then bears that risk. Agreements entered into by a party with the other stakeholders implicated in the construction venture are among the essential instruments at a party's fingertips. From the standpoint of trying to manage risk, it's crucial to allocate a construction risk to something like the party that would be most successful in managing and handling it.

A construction manager, for instance, will also want to allocate the risk of someone being wounded all through construction activities to the builder, who is now in the perfect situation to guarantee a secure working atmosphere for everybody implicated. A builder will also want to shift the risk of layout flaws to the holder, who, in so many instances, agreed to sign the agreement with the designer and is thus in a good role to discuss and mitigate these damages.

Special stipulations in the building contract should be included for various risks, so the sides are aware of who is liable for which risks from the start.

As per the research, the risk is mainly apportioned thru the indemnification and health coverage stipulation requirements in contract circumstances (Tang et al., 2020). It is prevalent for contract conditions to include indemnification regulations, which require one party to indemnify another for failures caused as a consequence of third-party allegations made against the contractual stakeholders. Some other basic and crucial process of risk planning is health coverage.

Contracting indemnification regulations are only as nice as the capacity of the willingness to protect to honouring them, which would be why they must be cautiously reviewed. According to the latest research performed by James P. Bobotek (2011), when risk is transmitted through an indemnification providing, it is vital to maintain that the receiver has health insurance adequate if it is allowed to acquire health insurance to charge for the presumed indemnification commitments.

If a participant is liable for a particular sort of disaster on a venture, it would want to acquire health coverage to encompass that damage in limiting its monetary publicity if the loss is incurred. A few risks, including such coercing speciality, are exceedingly challenging since no

single party has authority over them. This form of risk could be alleviated, such as a contract agreement, besides a contract to strike a deal if the scenario emerges.

In return for assigning the risk, the customer may decide to charge risk premium costs to the party to the contract.

They must, even so, make sure that the price they charge for risk allocation is much lower than the high price those who will indeed charge if they assume the risk themselves. This is because taking the risk could outcome in much less harm than the default risk.

Able to allocate a risk mainly under the regulation of one person to others is a bad idea since it necessitates the non-controlling person to charge an elevated fee, lowering the risk's significance for cash. If a risk is in the patient's regulation and it can do handle and ameliorated, paying a large price to get it delegated to a contracting company in the first place helps make no feeling (Tang et al., 2020). Correspondingly, when risk is in the company's regulation and can be handled and ameliorated effectively, this should not be responsible for the high price.

The building agreement included a productive explanation of the allotment of risk among numerous stakeholders implicated in the construction procedure to prevent future misconceptions. For instance, the FIDIC Red Book for megaprojects would include a conversation on risk transfer, a sequence of flowcharts of project risk and also their correlating obligations, obligations, and how this is discussed.

3.2.5 Risk Response

The main aim of risk response is to recognize actionable steps that can be begun taking to minimize the adverse facets of the danger, which would be a danger while growing the chances of good results, thus also converting the risk into such a chance. Risk response entails identifying sufficient means, making plans for the occasion, and integrating them into the timetable and spending plan.

Winch (2010) suggested the initial ideas on how to deal with risk. But whichever project planning can bear the consequences and, as just a consequence, strategy for how to react to a risk occurrence, or it cannot. Or else, the danger can be extended by, for instance, entitling the risk to a more appropriate group to deal with the scenario (Tang et al., 2020). Even though managing risk is a risk in and of itself, it is only viable if another participant is best prepared

to manage the risk. The risk must be transferred to the nearest party to the risk. Project planning can also assist in risk mitigation by modifying the context of the venture and thus prevent the risk entirely. Remediation should be the 1st line of protection, so the managerial risk procedure should be incremental and ongoing all through the venture's life cycle. Some other risk-response way is to buy protection to encompass against the risk occurrence. As described in the earlier segment, it should be completed for occurrences with a low likelihood but an elevated effect on the company. Eventually, reaction choices must not be created purely just for trying to make them; thus, deferring a judgement till more knowledge is accessible is an alternative that should be regarded. If the risk is acknowledged, changes to the program's schedule and spending plan must be made to ensure that a proposal can endure the risk's repercussions.

3.2.6 Risk Control

Comprising the risk is as essential as the stages that preceded it. At this phase, documentation of the specific hazards must be managed to keep, as well as the efficiency of the reactions should be analysed. As said before, the monitoring process would be capable of developing reaction techniques even while recognizing prospective new dangers by leveraging risk mitigation as an incremental procedure. All risk assessments should be recorded, as must the effect of this same risk and reaction on the program's or product's timetable, spending plan, and reliability. The proposal should assign a risk proprietor in sequence to be effective. A risk manager must take a productive role in tracking the job and the managerial risk procedure, for instance, by talking with site staff or other staff that are more strongly linked with real building work or even the origin of the possible risk. Risk control and reputation are two critical factors in managing risk.

3.2.6.1 Monitoring and Renown of The Risk

Tracking and evaluating specific hazards and evaluating, assigning, trying to mitigate, and tracking emerging threats as the work proceeds and its environmental alterations are all crucial parts of a risk managerial strategic plan. This process is adopted for the length of the agreement.

IMCA, 2006 (The International Management Consulting Association) defines risk governance as reducing the probability of a risk happening or its effect on a venture. It also describes that the managerial risk feature is made up of the 5 phases mentioned below.

The succeeding procedures must be followed:

- Recognize future references of risk just on the venture.
- Assess their personal effect on the venture.
- Prioritize others with a meaningful effect for additional inquiry.

Assess the ultimate consequences of considerable risk.

Look at ways to decrease the probability or consequence of the risk; design and assess a strategy for risk management and decrease; and supervise and review the outcomes.

3.3 Project Contract Lifecycle

Every proposal, not just within the building projects, progresses through several distinct phases wherein the proposal is 'conceived,' population of older people, persists into old age, and eventually 'lapsed.' We differentiate different stages all through the construction endeavour existence loop, within each collection of objectives and character traits. Since there are so many procedures implicated in a construction venture, it generally needs to take a lengthy period from the time when the contract is founded to the moment the task is finished—as per Hillson D. (2009), contracting should be done at different phases all through the construction lifespan to accomplish the strategic construction goals.

A few writers, such as Hillson (2009, 2009), argue there is no widely agreed description of a construction lifespan and also that new texts and norms utilise different terms to split a program's living into various stages. He divided risk planning through the construction lifespan into three simple phases: first before the programme starts, during the program's founding, and then after the proposal starts. He used the above phases to organise how risk assessment is applied throughout the construction lifespan. The first step includes developing the program's notion, assessing its viability, and putting it into action. The second phase is the passage of time between the verdict to start the proposal and the proper project release. This is the construction implementation stage, where the program's applicability will be put in place.

The building agreement, according to Cristian P. et al. (2009), is divided into two main stages, and areas continue to follow: (1) agreement creation, (2) agreement execution, and (3) agreement finalisation. The institution step of a deal stipulates the tender process and

agreement negotiating process. In contrast, the execution stage will last from when the agreement is signed until it is terminated. The bid time frame, also known as the introductory phase of the building contract, is measured as the time frame between the order to prepare the tender documents and the going to open bidders for the building contract. Contract negotiations started with the delicate submitting and finished with the contract signature. At this point, the landlord and the consultant start debating the deal's destiny and how those who aim to finish it and they sign a service agreement after thoroughly evaluating all of its regulations. Construction companies spend building work in line with the agreement of the contractual obligation during the agreement project execution.

3.4 Basic Requirements for an Effective Risk Management in The Content of Contract

It is possible that failing to maintain clear communication throughout the contracting process will result in losses or other adverse consequences such as late deliveries, claims or law suits, to name a few examples. The stakes in contract negotiations are high, including loss of generosity and public image, and if they are not properly managed, they can be costly. They can be extremely expensive if they are not dealt with properly.

It is a waste of workers' time whenever a contract is not finally passed, because that time might have been spent on the more productive tasks. Staff members' time which could have been spent on more productive tasks is wasted if a contract is just not finally done. Failure to complete contracts satisfactorily results in a loss of doosh, resources, and employee time that could be spent on more productive tasks.

One of the most common types of contract risk is dialect risk, which is mentioned in better detail below. Another common source of contract risk is financial risk. Financial risk is another type of contract risk that is commonly encountered. Another type of contract risk that is frequently encountered is the financial risk associated with the contract. Another common source of collective bargaining agreement risk is the verbiage of the contract, which will be mentioned in greater detail later on in this section of the page.

It is not uncommon for a controversy to arise as a result of the parties' inability to come to terms on the provisions of the deal, let alone on that what these words mean when imposed to

their specific circumstance (Xu et al., 2018). A deeper understanding of the root issues of contract risk can be gained by looking at factors such as perceptions, increasing complexity, and miscommunication, amongst other things.

It follows that we will have a better understanding of the underlying causes of collective bargaining agreement risk in the future, and that we will have a better idea of the true factors that cause of collective bargaining agreement risk for the development, and so forth.

As a result, contracts are important because they serve to report what has been concurred upon and to communicate clearly the existence of the accord and its definitions so that there are no future disputes about how they're socially constructed (Xu et al., 2018). Afterwards, there are two additional contract terms additional risks: the rejection to properly manage the agreement, as well as the fail to perform the contractor process successfully. As the process evolves and involves multiple organisations and supply chains, that becomes vastly more challenging to fulfil the promise made in the documentation.

The authors of this paper argue that adequate, clear, and equitable contract provisions are essential to the successful reaching the end of projects of any size or complexity, no matter what the size or complexity of the project in question is. Consequently, appropriate contract terms and conditions are critical in order to ensure that the project's special details and targets are met, and this is especially true for large-scale projects. Before the duties and privileges of project participants can be strictly established, it is necessary to establish a simple set of contractual terms and conditions (Xu et al., 2018). Also required is the clear and unambiguous distribution of risks and problem situation among the various parties to a contract. Furthermore, it is expected that contract terms will be equal and fair in their care of the parties, in addition to purely complying to the generally recognized essence of assigning risks to those who are best equipped to handle with them.

It is impossible to remove all risks related to specific building projects before it begins due to the fact that every construction project involves some level of risk. For the simple reason that every construction site entails a certain level of risk, all that will be required is proper regulation of risks that have been assigned to various parties, followed by proper management of those risks. Depending on the circumstances, it may be requisite to use the dialect of the contractor in order to achieve this goal in some cases.

It is possible that one of the contract's objectives is to determine in what party has supposed the greatest amount of risks during the course of the transaction. In this case, the contract can serve as a framework for discussion here between parties in order to achieve this goal. Contracting officers are responsible for selecting risk sharing and risk moving strategies that are consistent with the terms of a shrinking policy that has been established.

Constructing contracts, also known as contractual terms, are used to organise the distribution of risk amongst some of the different parties involved in the construction process throughout the curriculum of the development of the proposed system (Xu et al., 2018). Other responsibilities and tasks assigned to this group of professionals include estimating and organising the estimation of infrastructure projects, among other tasks and responsibilities.

3.5 Types of Construction Contract

3.5.1 Lump Sum Contract

In this agreement, the contractor promises to do the whole job, shown in designs and defined in specifications for a predetermined quantity of money. Lump-sum contracts are often utilized in the construction industry. During the bidding phase, the materials' quality may be determined with sufficient precision to enable contractors to provide a one lump sum price for the task. A lump-sum contract is better suited for projects when the contractor has previous construction expertise. The contractors' expertise allows them to make a more reasonable bid (Xu et al., 2018). However, the contractor has some price risk since it must complete the task for which a set lump price has been negotiated. This deal is not appropriate for problematic foundations, uncertain excavations, or projects prone to unforeseeable hazards and fluctuations. Furthermore, the contractor may risk the project's conclusion by attempting to reduce expenses to enhance its profit. On the other hand, if unanticipated challenges arise, the contractor risks losing money rather than generating a profit.

As a result, this sort of contract represents a high level of risk for the contractor, and if employed, some way of mitigating this risk should be included in the contract agreement. In general, this sort of contract is better suited for reasonably predictable, modest, and straightforward tasks.

3.5.2 Lump Sum and Scheduled Contract

This contract is similar to the lump sum contract in that it includes a schedule of rates in addition to the contract agreement. In this agreement, the contractor agrees to do a specific piece of work for a predetermined fee within a given time frame, following designs and precise specifications. The rate for different items is also supplied, which specifies the additional amount that must be paid or deducted for any additions or deletions throughout the project's execution. Any other completed work items must be measured to be reimbursed. But the original work must be reviewed and compared to the designs and specifications before being accepted.

3.5.3 Cost Plus Fixed Fee Contact

Additional charge on top of the cost So, when the scope and character of the task can be at least generally specified, a contract is preferable to a formal agreement. According to the project's content, its approximate cost, kind of work, projected construction time, personnel and equipment needs, and other factors, a lump sum charge is set. The price is calculated on a time basis. The scope of the task and specific basic details must be determined before engaging in contract negotiations for this sort of service. There is no fluctuation in the contractor's fee based on the actual cost of the job. The contractor can't boost his profit from the project after this charge has been set in advance.

3.5.4 Cost Plus Percentage of Cost Contract

The contractor's fee is determined by a proportion of the total construction cost in this sort of contract (Xu et al., 2018). The contractor reports the actual price of the building, and the owner pays him together with a set proportion that was previously agreed upon. In this agreement form, the contractor seeks to raise labour costs to gain a higher profit. This is the primary drawback of this sort of contract.

Cost-plus contracts are not often used in Ethiopian building projects. As per Zewdu T. 2009, there are three sorts of arrangements depending on the technique of payment and pricing. There are three types of contracts: lump-sum, cost-reimbursement, and measurement contracts. A lump-sum contract pays the contractor a specific amount of money to finish the job. The consultant's role is reduced since he merely monitors job quality. It reduces time due to reduced measuring effort and is appropriate for smaller tasks. In a measuring contract, the contractor

gets paid depending on the work he completes. It is possible to change the quantity of effort and compensate the contractor for overtime.

The contract works with the income under a cost-reimbursement contract, and when he is finished, his money is returned to him. It is appropriate for wealthy contractors. The contractor agrees to execute specified operations and is paid based on how many of them he completes.

3.6 Contract and Risks

Construction contracts may assist in dispersing risks among the many parties engaged in the development. The proprietor has the authority to choose the contractual arrangement to be used for a certain enterprise; thus, it is essential that he grasp the terms of the signed relationship and the risks connected with the various kinds of contracts. The owner delegates practically all of the risk to the provider in flat payment agreements. The builder may request a premium price to account for unanticipated circumstances. If the final total investment is overestimated, the company's income will be deducted from the amount played down. Overestimation has the opposite impact. However, it may diminish your chances of becoming the buyer agent and obtaining the job.

The fixed amount regime is used to finish a large number of orders. This is primarily because the proprietor wants to understand the cost and schedule at the outset of the project and does not want to be involved in the building process. However, as previously said, if this structure is not adequately established at the outset, it might lead to a slew of issues. To ensure the achievement of project objectives, all risks related to the agreement should be recognised, and various risk management procedures used before agreeing.

Depending on the kind of contract chosen by the proprietor, the constructor realizes that due to defective material, the real cost of the project will never be equal to its own estimate. The gross profit of a contractor at the end of a project is influenced by the kind of agreement, the reliability of its original report, and the form of work modification orders. It is also typical for the owner to issue work modification orders to amend the initial scope of the work, for which the contractors will be compensated. The merchant accounts should be specified in the contractual agreements to prevent conflicts.

The contractors should set reasonable contract rates during tendering or discussion based on the state of the marketplace and the various risks associated with the kind of agreement. Most landowners desire great development at a fair cost, but not all are interested in sharing risks or motivation to improve the quality of buildings. Consequently, only a few reputable subcontractors reply to their requests for proposals, or the proposal costs presented surpass their analysts' estimates (Xu et al., 2018). Even if the first offer costs are similar to the inventor's projection, disputes and contract negotiations become common. Claims and disputes may be minimized or avoided by strengthening contract terms and including risk control measures. According to the Building Research Advisory Board (1978), one of the most contentious topics in contract clauses is the compensation for modification orders. It will be hard to agree on compensation and claims resolution if the agreement does not include accurately described cost declarations for assessing change order expenses.

Most construction contracts involve economic penalties for delays, which may alter the project's agreed-upon cost projections. When it comes to the time as a risk in and of itself, there are certain situations in which a business must meet a specific deadline. In such cases, the contractor incurs a universal time risk, which may need extra cost considerations in the agreement. When it comes to Ethiopian building construction projects, according to Lui Y., (2009), most initiatives are finished beyond their stipulated date of completion, i.e. they experience delay; and, as previously noted, this nearly invariably results in cost overrun.

When choosing a contract document, one should evaluate the cost structure used by each kind of contract, as well as grasp the economic equilibrium of a service agreement and the expected influence of its terms on the final result, and correlate this to the requirements of the participants. One of the most important elements in the risk management plan is thorough contract evaluation. There is no replacement for properly reading each new agreement it. Aside from the obvious concerns of mistakes and misleading information that seep into contractual agreements, a diligent assessment may identify additional risks, poorly assigned risks, and other difficulties that must be resolved before final negotiation.

The bulk of actual construction risks are discretionary, and there is often inadequate information gathered to allow for an impartial appraisal. As a result, their assessment will be dependent on the analyst's subjective opinions at best.

3.7 Project Contract Lifecycle

Regardless of the kind of endeavour, people in the building company go through numerous phases. The enterprise is 'formed,' 'develops,' 'proceeds into old age,' and then 'ends.' The project differentiates multiple stages during the life cycle of a construction project, each with its own collection of aims and attributes. Because the building process involves various processes, it usually takes a lengthy period from when the contract is created until the project is done. According to Hillson D. (2009), contract management must be carried out at different stages during the project lifecycle to achieve project objectives.

Like Hillson (2009, 2009), several writers argue that there is no universally accepted concept of a construction process and that various magazines and regulations use multiple languages to divide a project's life into phases. He divided the use of risk management all through the project lifecycle into three simple different stages: before the construction began, during the development's genesis, and after the operation started. He utilised these steps to organise the usage of managing risk all through the program's lifespan. The first step entails developing the project's concept, assessing its viability, and putting it into action. The second stage is the length of time between the commitment to commence the program and the planned and actual launching. (Xu et al., 2018) This is the last stage, the design and execution stage, in which the project's applicability will be executed.

The construction contract, according to Cristian P. et al. (2009), is separated into two key phases, which are as follows: (1) agreement formation, (2) collective bargaining agreement completion, and (3) collective bargaining agreement completion. The contract's formation phase includes tendering and agreement discussion, whereas the agreement's system implementation will only last from the moment the agreement is signed until it is terminated. The proposal phase, which is the first phase of the building project, is measured as the period between creating the request for proposal and submitting the actual construction proposals. Contract negotiations commence with the tender application and finish with the final negotiation. At this point, the owner and the contractor debate the contract's destiny and how they intend to accomplish it. Afterwards, they sign the agreement after thoroughly analysing all of its terms. Contractors conduct construction projects in line with the requirements of the contractual obligation during the contractual project execution.

3.7.1 Project Lifecycle and Risk

It doesn't matter how many phases a project is broken up into. Even though each stage has its own risk assessment and management, there is still a need to handle risks due to the project's life cycle. To get the most out of assessing and managing risk responses, it is crucial to realize them slightly earlier on and to use a comprehensive perspective to keep abreast of developments and implications over time. Some risks stay the same, while others come and go as projects move forward. To continue improving the performance of a project, it's essential to look for and deal with risks that arise during the project's life cycle. As part of the project life cycle, the best ways to identify and analyze dangers and the best times and places to make essential decisions must be set up. Many experiments have shown that project construction companies don't know how risks will affect the project's life cycle, which can be dangerous.

Several people or groups are responsible for and in charge of different parts of a project's life. This is true for most projects. However, in some cases, it has been thought that breaking down tasks into separate phases and liability regions can make them riskier. This is because the construction professionals become more focused on their own risks and consider transferring these dangers to other project stakeholders, either voluntarily or not.

3.7.2 Traditional Contract Practices in The Construction Contract

The construction industry is infamous for its adversarial workplace relationships between client and contractor, specifically with competition fixed-price lump-sum agreements, which are famously tough to manage (Kaka et al., 2008). According to business evaluation studies released worldwide, the rationale of the procurement route is often questioned.

According to the World Bank, **target cost contracts (TCC)** and **guaranteed maximum price contracts (GMP contracts, a variant of TCC)** that correspond to the personal objectives of contractual states would be effective procurement designs to foster a more pleasant working society and collaborating essence in the building projects.

Even though both TCC and GMP agreements have already been effectively employed in various regions throughout the world for many generations, not all projects bought under these legal agreements have experienced the same levels of effectiveness following the performance outcomes.

For instance, Chan et al. (2010a) commented on a research study of metro platform alteration and extensions works in Hong Kong that were completed with considerable savings in both time and money due to the implementation of the TCC procurement route, as described in the paper. In contrast, Rojas and Kell (2008) discovered that in the northwest United States, the actual project cost of 75 percent of school projects evaluated was more than the GMP value. In contrast, the same phenomenon was seen in around 80 percent of non-school initiatives. These data do not support the concept that GMP was a legitimate cost guarantee. Nevertheless, they provided a compelling reason to conduct this research to capture the insights acquired from past TCC/GMP agreements.

Identifying essential risk indicators and evaluating their comparative relevance are critical in managing the risks of those TCC/GMP agreements and improving the overall economic viability of the procurement process. This research provided several primary project participants, including but are not restricted to employees, vendors, and advisors, with the information and awareness they need to concentrate on high-risk elements and productively apply effective mitigation strategies. This research is anticipated to advantage both research groups and industry practitioners by detailing the possible risk factors of TCC/GMP initiatives, adding more objective support to the knowledge base, and trying to establish a solid basis for future studies, including international rating agencies of risk evaluation with these kinds of construction.

3.7.3 TCC (Target Cost contract) and GMP (Guaranteed Maximum Price Contracts)

As opposed to commonly agreed terms, Target cost contracts offer a 'best' idea of the total of the activity to be accomplished. The previous target budget will be revised throughout a project in line with an agreement signed by his authorized agent and the vendor to compensate for any revisions to the original specifications." A targeted costing provides an optimized comparing the actual cost of completion of the work to estimation or a project budget of the activities. Any variances within a cost range are divided between the contractor and client according to a specified common share. Wong (2006) had a similar viewpoint, believing that the subcontractor should indeed be paid the actual cost of the task accomplished at the contract's inception. However, when the actual figure cost of the project varies from the previous target

budget, the discrepancy is distributed between the contracting parties according to a pre-determined gain share/pain-share proportion established in the deal, with the owner assuming the bulk of the responsibility.

3.7.3.1 GMP

GMP is a sort of contract job that is better appropriate when the layout is based on traditional methods. However, the project's scope for fixed-price tendering is unclear at the time of the agreement award. GMP was defined by the American Institute of Architects (2001) as a total amount found in a contract here between the customer and a construction company as the limit of the cost of the project to be compensated by the person authorised for conducting stipulated actually does work based on parts and labour and operational expenses. This traditional procurement includes are making a predetermined payment and a portion of any benefits to the customer. If the expense of the job surpasses the guaranteed limit, the contractor is responsible for the additional expenditures. In this case, a maximum cost is based, and the subcontractor is accountable for any higher expenses. However, the program is frequently launched with significant unknown factors, and the integrity and scope of the project may be compromised at the price of GMP benefit.

Both the guaranteed maximum price (GMP) and target cost contracting (TCC) schemes are procurement management techniques that endeavour to mitigate the risks, prevent the occurrence of disputes/claims, incorporate the different interests of complicated building construction, and provide incentives to provide incentives with the value-added assistance. However, victorious foreign instances have shown that the GMP/TCC arrangements may only deliver significant mutual advantages to all contractual relevant parties if adequately constructed, executed, and maintained.

GMP/TCC has gained a lot of attention in the United States, the United Kingdom, and Australia in current history. For instance, the New Engineering Contract, which contains multiple cost-reimbursement contract alternatives, has long been used in the building and design industries in the UK and elsewhere. Nicolini et al. (2000) investigated if TCC can be used in the UK construction sector using case studies from two new pilot construction projects. Nicolini et al. (2001) discovered that when particularly in comparison to a small scheme utilising the process and determining strategy, both pilot installations achieved a reduction in costs of 8-14 percent,

a faster schedule of 5-20 percent, and a decrease in a complete redesign of 90-95 percent, with no reviewable incidents reported during building projects.

Since the conclusion of the first project adopting GMP in August 1999, the GMP arrangement centred on a cost-reimbursement idea has been gaining acceptance in Hong Kong, among other alternate integrative procurement methods. For example, the project, a high-rise privately owned building at "1063 King's Road" in Quarry Bay, was finished on time and at a cost that is 11-38 percent cheaper than similar structures built via the usual procurement procedure. However, even though GMP/TCC has been used for many years in the United States, the United Kingdom, and Australia, not all of these projects have been equally successful. Furthermore, despite a wealth of literature on GMP/TCC procedures in other nations, minimal research results, particularly in the Hong Kong environment, has proved the amount of achievement and experiences gained from prior GMP/TCC programmes.

3.8 Key features of GMP/TCC

3.8.1 Tendering Method

When a TCC/GMP proposal is obtained through a contract agreement, the favoured contractor is already recognised through a lengthy organisational, professional connection before the proposal even begins. Bidders will be requested to present preparatory propositions highlighting their company resilience, pertinent work history, previous path record, knowledge in alternate solution purchasing systems, essential expertise, economic security, institutional arrangements and staff, working in conjunction dedication, and other valuable facts, as suitable, in the particular instance of a preferential tender process grounds. The customer then evaluates the propositions and collaborates with his group of specialists to assess them. Based on a solid review, a team of pre-qualified construction firms will be chosen for further evaluation and welcomed to put in a bid.

During the second phase of the purchasing procedure, the short-listed bidders are asked to offer up more specific guidance depending on the relevant criteria:

- Quantity invoices
- A more finished set of concept sketches (e.g. 80 per cent)

- Evaluation criteria for work bundles

Since the vast bulk of the outsource bundles is finally procured on an "open-book" competitor's peaceful grounds, the necessity does not interfere with the goals of acquiring a competitor's bid under the bargained tender process strategy. On the other side, this knowledge transfer requires an elevated sense of consensual confidence among many construction team representatives, especially the primary contract worker. As a result, highly competitive sub-contract bundles offered in the acquisition procedure may receive 60 to 80 % of the total agreement valuation.

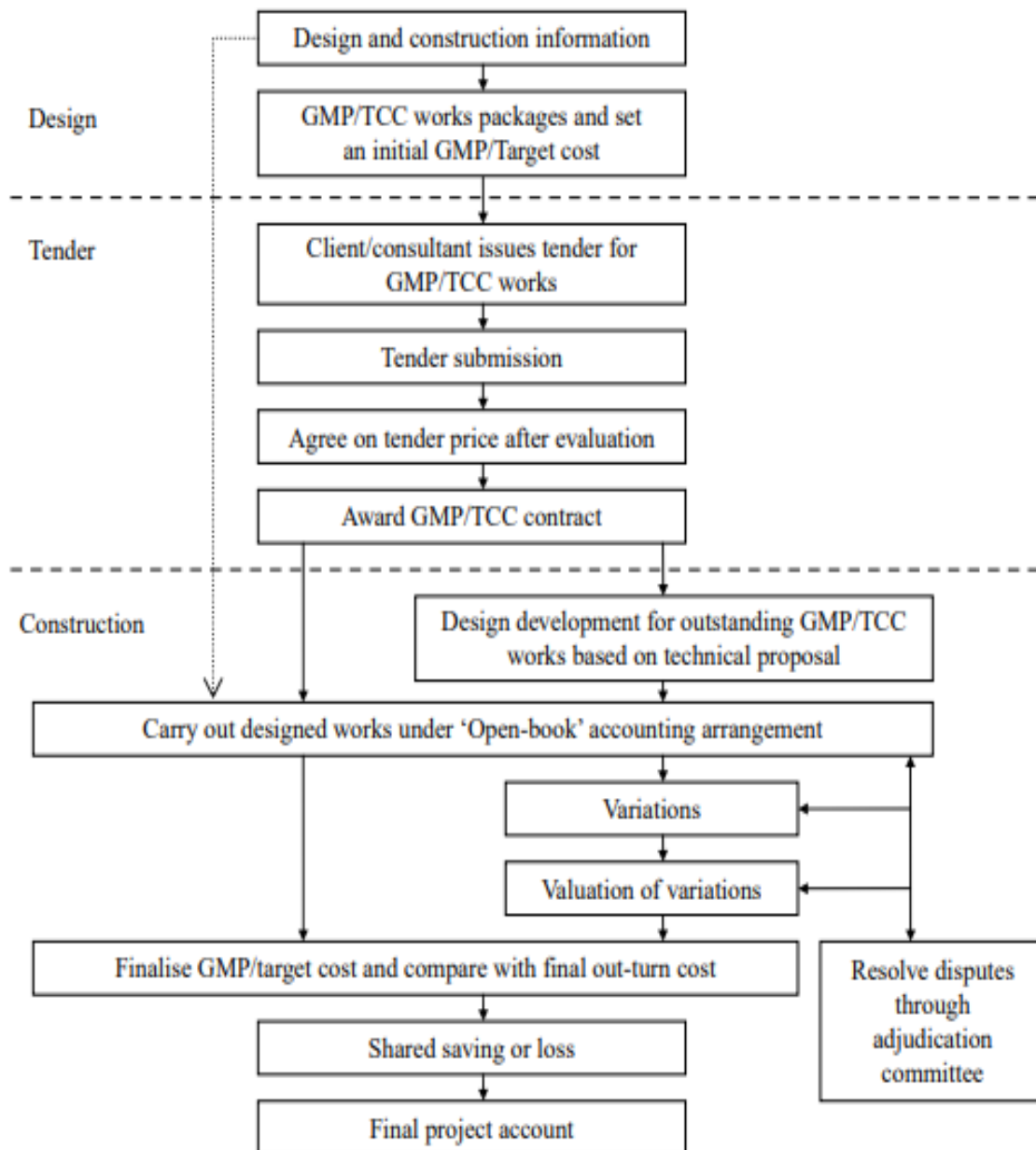


Figure 7: Tendering method

Image source: (Xu et al., 2018)

3.8.2 Pricing Mechanism

A GMP/TCC agreement, like other conventional cost-based agreements, demands that the company's proposal price for any GMP/TCC subcontractors' deliverables be made entirely public to the clients, although generally via an "open-book" accounting information system. The company's finances must be available for the company's examination. In addition, the

customer must be satisfied that the company's on-site technical staff will comprise a general administration team and accounting with expertise in this method. The customer pays these fees to the primary contractor if the created facilities are acceptable. Implementing an open-book accountancy system is allows for more transparency and measurement of risk expenses.

The GMP/TCC purchasing technique is additionally distinguished by an understanding that the activities will be accomplished within the contract duration and that the expense to the customer will not surpass the project budget, as guaranteed by the subcontractor. Cantirino and Fodor (2003) noted that when using the GMP technique, if the actual expenditure exceeds the agreed GMP, the customer is only accountable up to the specified maximum number, with the extra expenses being paid only by the subcontractor. The project's price cap is established, and the person's credit risk is significantly reduced.

3.9 Risk Assessment in The Construction Contract

Irrespective of the ongoing dispute among risk mitigation professionals over the concept of Risk, multiple efforts have been made by various professional organizations and standard institutes to define the term that captures universal acceptability. There is, nevertheless, no one formal definition of Risk. However, it was unearthed that most benchmarks use the phrase threat in its deleterious sense to describe the probability of negative implications or exposure to misfortune. In contrast, some models, such as the UK, define Risk as an unforeseen outcome or series of events that, if it occurs, will influence the results of aims. Because the impact is not stated, it might be either favourable or unfavourable, and Risk has been described by PMBoK (2008) as an unpredictable occurrence or circumstance that, if it happens, has a detrimental impact on one or both of the project's goals.

External risks are projected to occur in the future; hence, they are occurrences that have not yet happened. This allows for the calculation of their likelihood of occurrence. Incredibly complex and therefore assessing the possibility would be impacted by several aspects that must be considered. Risk is described as anything that happens that was not anticipated in the proposed project or agreement and is often based on a lack of information on the part of one or more of the relevant parties.

The idea of risk has long been established in the building industry. Contractors are required to assume some risk as a consequence of the probability of unforeseen costs occurring during the construction process. Clients are also apprehensive about the danger of losing money. This risk may be minimized to a bare minimum by including a contingency sum in the business agreement. If and when the unexpected occurs, this contingency fund is used to pay the expenditures. According to Stephen M. and colleagues (2000), the allowed contingency amount is just a minor part of the entire cost.

According to Francis K. (2008), most contractors depend on including a single arbitrary percent cost contingency to convey an overall impression of the whole risk rather than assessing the chances that they are required to carry. Mr Francis K. These judgements are based on the individual's perception and determination. Consequently, proper analytical tools for construction contract risks are necessary to increase risk management efficiency.

Identifying the full spectrum of threats to which a project may be subjected is one of the most challenging components of evaluating project risk. This is one of the most challenging components of analysing a project's risk. The categorization processes are highly complicated because what is seen as a hazard is decided from the individual's perspective. It is advised that several risk management professionals engage in the agreement designing phase at various phases of the process to reduce the influence of these diverse opinions. A better result to manage risks may be obtained if a risk assessment is incorporated into the process from the start of the agreement and continuing all through the project's life.

All contracting parties must have a clear awareness of risk; alternatively, it might lead to a host of problems for everyone involved. Due to a lack of information, contracting participants may be compelled to react to risks they do not understand, resulting in a range of challenges and even bankruptcy.

There are three types of hazards, as per the (CDM guideline, 2007). These are some instances

- The following is unlikely to be clear to the contractor: At the valuation phase, the construction company may not recognize some less apparent dangers, such as: intervening time consistency; utilizing different various plants insertion with renovation; systemic issues involved in working all over projects based; use of

waterproofing or other hazardous materials; deviations from everyday details or practise.

- Unexpected: These are ' typical' dangers but arise in abnormal circumstances and because of the structure's character or location, such as internal structure gained by diaphragmatic movement or reliance on residential facilities; pollution; industrial discharges; architectural usage; insecure terrain.
- Difficult to manage: These may be usual hazards in problematic settings, such as construction workers; 'health' and safety concerns in existing/old structures; tight spaces; absence of room for standard framework installation; the closeness of main gas supply; or they may pertain to the significance of the risk.

3.10 Challenges in a Construction Croject due to The Risk Allocation Contract

Contractual terms serve as a legal reference for the contracting parties, indicating the nature of their relationship. Contract terms should accurately describe who bears the risk connected with a building project and who is responsible for that risk. Parties will be negligent in the case of a risk occurrence if there is a lack of mutual evaluation of the risk liability between them. This will end in the stakeholders presuming the possible risk and its consequences are outside of their scope of duty. Various issues might arise when the contract provisions relating to risk distribution are imprecise and not correctly specified. If a disagreement arises and the terms of the contract do not specify how the issue should be resolved, it may result in a never-ending cycle of litigation. Contrary to popular belief, contract terms should be unambiguous and easy to comprehend by all participants. They should also specify how risks should be handled.

3.10.1 Undefined Quality Requirements

The importance of quality in building construction sites cannot be overstated. The goal of every development project is to implement it within the projected price, time frame, and quality criteria. Poor job quality results are in a loss of money and time. When the completed project does not meet the agreed-upon quality requirements, the owner is entitled to request reworking. However, if the contract does not explicitly describe the needed quality standards, the customer may overestimate the quality demand, causing issues with the subcontractor.

3.10.2 Low Percentage of The Advance Payment

The additional payment, which is the compensation made by the owner to assist the contractor in managing his contractual duties, is highly significant to the contractor since it provides funds to begin the construction immediately. On a construction project, the customer will often offer an advance payment if the contractor wants it to cover significant start-up expenditures related before work starts. Typically, the advance payment is a percentage of the overall price of the agreement, ranging from 15% to 20%, dependent on the requirements of the profession. An advance payment gives operating cash to the subcontractor at the time of the agreement to begin the work. Advance payments should only be issued against an authorised advance payment assurance supplied by the contractor to safeguard the consumer against the possibility of the contractor refusing to refund the money.

Some parties can tolerate more significant risks than others based on their ability, people, equipment, time, desire, other factors, and risk tolerance profile. However, according to IMCA (2006), both parties must accept the dangers they incur and how the agreement addresses them. Almost all of the hazards associated with construction have the potential to erode profit margins and turn a profitable project into a loss-making endeavour. In general, if the risk is poorly understood and inappropriately assigned by the client and contractor, it is likely to be inadequately controlled, resulting in poor project execution.

Construction contract parties cannot foretell the future, but precisely measuring the amount of danger involved in their undertakings might assist them in promptly adapting to it. In the context of a construction project, vulnerability is understood as the economic loss incurred as a result of constructive engagement. Therefore, any project choice that is made without concern for risks will result in an unanticipated conclusion.

External: Unpredictable

These are dangers beyond the individual's or manufacturer's management and are entirely unforeseen. They are caused by external factors such as third parties, acts of Nature, etc.

External: Predictable but Uncertain

Individuals or businesses have little control over these dangers. They are anticipated, but to what degree are unknown. Typically, data is available to define a norm or median.

Internal: Technical

These are hazards directly related to the program work's technologies, such as the design, building, or facility management.

3.11 Risk Response Strategies and Critique

Using PMI (2017)'s definition of risk, hazards should not just be seen as an alarming occurrence but may also be provided with opportunities and work in favour of the enterprise. Risk management professionals attempt to include opportunities administration into risk management procedures, with the same methodology used to handle either. Hillson (2002) examined a primary risk management method released by PMI in 2000 and found that specific improvements to the risk assessment process were required if possibilities were to be handled appropriately. Not only do the previously outlined reaction techniques of avoidance, transference, adjustment, and accepting fall short when dealing with options, but, as Hillson (2002) notes, "no project coordinator would seek to avoid or lessen the possibility and effect of an opening." Instead of providing a different response plan for possibilities, where possibilities instead are explored, distributed, improved, or disregarded, the risk management approach would be better able to handle good outcomes.

In contrast to avoidance, exploiting would enhance the likelihood of that event happening. As opposed to transferring, sharing is shifting risk to a party better suited to handle it and sharing the recognized opportunity to a party better suited to capitalize on it. Once again, enhancing a chance to use the definition of neutralizing provided above enhances the possibility or impact of the event. Finally, instead of accepting but disregarding an opportunity, concentrate on prospects having a more significant potential beneficial influence on the project. By modifying the frequently used parameters to recognize issues and hazards and instead focusing on either possibilities or risks as two different initiatives, it is possible to quickly determine which opportunities are worthwhile to continue pursuing and how to share, manipulate, and improve them effectively. PMI has added distinct reaction strategies for openings and countermeasures for both problems and risks in the current Project management plan.

3.11.1 Behaviour and Risk Management

According to research, decision-makers prefer to depend on prior experience and judgments based on previously accomplished initiatives and outcomes. When making financial and economic judgments on construction projects, key stakeholders' "outcome experience" of past projects influences their risk proclivity. Furthermore, it was shown that the choice to compete or not bid on a venture is impacted by the manufacturer's risk propensity. Farooq et al. (2018) demonstrated that traditional risk probability models used in construction works are often incorrect by developing a weighting function and conducting interviews. They have a 5-11 percent overestimation of adverse risk and a 5-10% underestimation of positive risk. Their results, however, could only be evaluated on unfavourable outcomes. Furthermore, the risk inclination seems to be impacted by the project's financial results, the number of decades of work expertise, and the age of relative independence.

Fiolet et al. (2016) believe that these variables impact decision makers' risk propensity despite only being examined via a questionnaire form and not in real-life procedures on location. By forcing decision-making to choose among two options in two different scenarios, one of which is a conventional way and the other is innovative or a substance that may require rework or conformance with the configuration, they discovered that stakeholders in initiatives that are operating above spending plan become risk chasers. The decision maker's experience has also influenced this. Fewer educated stakeholders are risk-averse in scenarios portrayed as making provisions or attempting a new method. Still, more knowledgeable decision-makers are more averse to risk when trying a fresh material that entails less hazard.

Depending on the decision maker's risk proclivity, with factors such as years of experience and age influencing the preference, this tendency to under- and overestimate risk, as well as to recognise more danger when the proposal is over a spending plan, the countermeasures will be grossly inadequate or overmatched for evaluating the risk satisfactorily. The risk preponderance functional mentioned above is appropriate for general knowledge and uncertainties. Still, it cannot be used for unknowable since the hazard sources have not been established, so a preference for something unknown cannot be quantified.

3.12 Risk Management Theory

3.12.1 The Iron Triangle

According to Atkinson (1999), project leaders will use the three aspects of quality, duration, and money to assess the project's success. He says that two of these qualities are only estimates and assumptions, but the other is a reality. However, judging success on these three dimensions may be overly limited since it excludes additional advantages for the business or other parties touched by the initiative. To reduce the type of errors associated with the iron right triangle's limited scope, Atkinson (1999) recommends rather than taking "the rectangular shape route" of initiatives, which includes not only the three components of the iron triangle, expense, performance, and duration, but also the information network, business effectiveness, and stockholder advantages. For example, the project's information management may include the program's dependability, authenticity, supportability, and system quality. Organizational advantages should consist of greater efficiency, revenues, corporate learning, and stakeholder's benefits such as environmental protection and social, as well as generally pleased users.

Fiolet et al. (2016) expanded on this idea, claiming that budgeted effectiveness motivated decision managers in construction projects to think within those terms based on the project's budget performance. When stakeholders are working on a project that is over expenditure, they are more likely to take risks than when the program is on- or under spending plan. This is explained by the fact that when people make decisions, they continually think about the choice in terms of benefits and liabilities. According to the judgment manufacturer's experiences, these inclinations might be exacerbated or minimized.

Managers often exaggerate advantages and overestimate expenses when utilizing methods such as costing systems in order to maximize the chance of their project receiving approval or financing. There is also a distinction between whether it is done on purpose or due to misleading strategic statements, with managerial and governance influence playing a significant role. Estimation mistakes are sometimes tried to be accounted for by a scarcity of documentation, incorrect information, or incorrect forecasting tools. Still, as Flyvbjerg (2006) points out, the errors are frequently constant, indicating that the issue is due to biases rather than mistakes. Instead, Flyvbjerg (2006) suggested using Reference Class Forecasting (RCF) in managing projects, which involves locating related past developments that are similar to the

new work, trying to establish an applicable dispersion of possible outcomes by obtaining data from the very same identification and understanding as to the latest project, and going to compare the project to that dispersion to determine the likelihood of the project's outcome. The use of a strategy such as RCF forces the policymaker to take an objective perspective of the project, mitigating the planned misconception.

3.13 Risk Management with Contract Types

All liabilities are transferred from the owner to the subcontractor in a lump-sum agreement a single standard arrangement. The construction company is guaranteed a specific amount of income from the proprietor. It was thought that lump-sum contracts might hold the vendor liable for any budget overruns, providing the contractor with the best incentive to increase productivity. Under component agreements, the contractor prepares all project risk in the absence of unanticipated modifications or consequences by either client and follows a tight sequencing analysis and implementation, procuring [competitive bidding or competing], and execution. In a unit-price contract, the contractor is relieved of the risk of erroneous assessment of unknown quantities for certain essential activities. Although the builder may pass on some dangers to lower-tier specialist contractors when possible, the contract typically carries the potential losses of extreme weather, protests, or other environmental factor that impact a company's cost but are not immediately under the authority.

In a purchase price set amount agreement, the proprietor is often compelled to face all risks of budget overruns, particularly in kinds of structures requiring new technology or highly urgent demands. Under a cost-plus flat rate arrangement, the owner faces the threat of productive working cost overruns, but the contractor may risk losing revenues if the project takes longer than projected. In a cost long-run marginal percentage agreement, the vendor assumes the risk based on its own assessment, consenting to punishment if the actual cost exceeds the estimated project cost and compensation if the actual expenditure is less than the expected employment and economic. The owner bears a significant risk for budget overruns under a purchase price changeable percentage agreement. The contractor assumes all risks under a guaranteed maximum pay-out agreement concerning the actual contract sum and development timeframe. Although the contract may suffer risks for issues outside his authority in these arrangements, the risk associated with single payment outsourcing is avoided as a trade-off for a smaller

guaranteed price. Collaboration/alliances, risk communication mechanisms, opportunity agreements, and other approaches may be available for enhanced contracting procedures and risk allocation processes. Target cost contracts are a kind of building contract that is often used in high-risk projects.

3.14 Various Dimensions of Contract Risk Management

Because the owners want to know which risk variables will substantially influence the undertakings, identifying hazards is a critical exam for all main contractual partners across all civil engineering and construction projects. Risk allocation is the defining and distribution of responsibility for a potential future loss or benefit, intending to assign resources for some academic outcomes if the project somehow doesn't progress as planned. Through commercial contracts, risk-sharing is a component of the risk management approach. Under conventional procurement methods, the owner often formally transfers accountability for most of the hazards to the subcontractor. A contract demonstrates the contractor's desire to do the task and his acceptance of both controlled and unpredictable risks. While model or conventional sets of general contractual conditions are accessible, the ideas behind their placement in the contracts have not been explicitly established. Any difficulties may arise when employing standard or conventional sets of common contract terms if risk-adjustment provisions are added. Furthermore, in today's high-risk situations and complicated multiparty projects, the form and extent of hazards tend to project unique, making tailor-made contract methods preferable. According to Zaghoul and Hartman, the success of any project or commercial partnership is always in doubt when there is a lack of trust in the relationship. Their results reveal a link between confidence and risk-adjustment techniques in building contracts how a good connection may lower the overall cost of a project by enhancing the risk distribution technique between contractual parties.

The Chang study's goal is to create a case for adding the consequences of contract breakdown into risk allocation choices, and it examined the modelling of the post-contract hazards. One strong reason to take this element thoroughly is that agreement breakdown may result in significant extra expenditures for contractual parties. Even though shareholders have a more significant stake in the company, suppliers' willingness to take risks is what ultimately determines whether or not they continue with the proposition. Opening with an analysis of

standard pain-gain sharing arrangements in building projects, Chang discovered that failing to account for contract breakdown dangers results in underutilised rewards. When the contractor's activity also determines the outcome cost, high-powered rewards are supplied to the contractors when cost fluctuations are projected to be minor, the company's aversion to taking risks is moderate, and the company's marginal utility does not increase sharply. According to Chang, collective bargaining agreement failed relationship possibilities is a crucial component, and bonuses should be used more aggressively to leverage the contractor's opportunity in reducing cost because spending cuts prompted by more significant and more powerful subsidies can serve as a buffer for potential losses, reducing the overall loss of contract relationship breakdown.

The decision to enter into a contract is critical to managing risk and uncertainty. According to Chapman and Ward, risk management should be seen as an integral part of the whole project life cycle. Successful risk management relies heavily on integrating a risk-sharing strategy into contracts. A two-dimensional perspective of risk and uncertainty is necessary for this integration to function, as is a connected risk efficiency view of decisions that address both anticipated outcomes and possible deviations from expectations. Considering all potential causes of ambiguity, such as misunderstandings and misunderstandings about the contract's specifics, is critical in making an informed choice about the contract's terms. A balanced reward and risk transfer contract structure are needed to help clients choose an acceptable kind of contract from the various alternatives that are accessible. According to Chapman and Ward, the key to making good decisions is comparing measurements and assumptions. The most critical overarching point is that it is both practicable and beneficial to fully integrate contract choice choices with a best practice approach to risk management.

3.14.1 Subcontracting

It's common practice in the construction industry to outsource a portion of a project to a third party. Several unique factors in the construction business lead to subcontracting and provide the project manager with some benefits, even as the company's current size and capability for work grow. Contracting work has long been used in the construction sector to meet the needs of short-term projects and flexibility. Eccles argues that market contracting is preferable to economies of scale because of the general contractor's restricted rationality under extremely

unpredictable settings. Another way to control risk is via the use of subcontractors. Employing skilled subcontractors helps decrease project risk for a developer. Companies in the construction sector take a lot of chances. Unqualified subcontractors are more of a danger than an additional expense. By lowering the builder's risk, the return justifies the investment.

For general contractors, subcontracting out job packages is the primary reason for dealing with subcontractors since it allows them to adapt quickly and effectively to market changes. Market instability in the construction sector results from construction corporations splitting into independent entities and relying on a subcontractor for specific job packages. General contracting parties have formed a partnership to deal with construction market volatility and seasonality, which necessitates a willingness to be flexible. Available construction company transactions have two distinct measurements: unpredictability and market structure. Both the building process itself and the behaviour of a prospective partner during development may contribute to uncertainties in general contractor-subcontractor transactions. There is a lot of uncertainty in the building process because work is done on-site, where weather and soil conditions might be unpredictable. All projects need different approaches to coordinating the output of workgroups that carry out cooperative and supportive, and the contractual process is a prescription for unpredictability because cost estimating isn't a proper discipline are all the other ones. Because of the difficulty in appraising each other's execution, both the construction company and the subcontractor might suffer significantly from a terrible result on the side of either partner.

3.15 Importance of Subcontracting in Construction

In the development of building and construction ventures, agency work is a widespread practice, but in engineering and manufacturing projects, subcontracting is utilised more often. It is common for subcontractors to do 80–90% of the work on building projects, independent of the ability of the main contractor. There are significant risks connected with hiring contractors, notwithstanding the many benefits of doing so. As a result, the cost of correcting quality issues might be relatively high. Contracts are signed between the contractor and the suppliers under the standard procurement system. In order to ensure that the project is finished on time, within budget and with extremely high standards, the contractor is responsible for organising and managing the work. Because of this, it's riskier when the primary contractors

are accountable for supervising subcontractors, especially when their contributions are significant in contrast to the leading companies. As a principal contractor, you may be affected by the quality and credibility of the contractors. There is a risk of unsatisfactory project outcomes if freelancers and their suppliers can't be managed and coordinated. The principal contractor must have extensive construction management skills to be a general contractor.

A "high human asset specific expenditure" is required for negotiations between general subcontractors and suppliers, and this significant human transaction exposure directly impacts the construction phase itself. Cooperation among subgroups is high, and each group's workspace is determined by its antecedents in the construction process. General contracting parties restrict access to transactional interconnections to increase the number of activities amongst established parties and make learning from each other to tackle the issues posed by innovativeness. Just a few of the challenges that need to be handled include learning new professions, creating trust, and developing lines of communication. Even if big contractors don't only use contractors, they employ their own capabilities, such as machinery and employees, to help with the construction process. It is much easier for the primary contractors to manage the overall standard of work when they employ their own resources. It will be easy to take control of the problem if the employment is direct. Workers who are directly involved in the project may be able to provide better results. As a result of subcontracting, the relationship between the employer and employees becomes more fluid, allowing the client and the principal contractor to have very little say in who does the custom fabrication.

3.16 Managing Construction Risks with Subcontracting

Contract work is another risk-control approach; however, arbitrary hazard allocation may result in complications owing to unequal risk distribution. Risks are not always allocated to the party most suited to manage them. Near one end of the building supply chain, individuals have much less decision-making power. Increasing contract work allows for the re-distribution of risks among many subcontractors. Rather than rigorous measurement and assessment, perceptions of risk play a crucial role in determining the transference of risk among contracting parties in this approach.

It was examined by () the several ways in which the subcontractor may contribute to the contractor's pay for public and working capital difficulties. The data suggested that the two key

categories of sources of risk were cost management and subcontractor project execution. The key challenges associated with a lack of risk management and administration skills were the results of the investigation of the various risk factors attributed to the contractor have cost management concerns. Under the subcontractor's implementation role, the three subgroups of risk factors were insufficient efficiency, poor documentation, and taking too many assignments at the same time. The essential answer to these hurdles would be for the head contractor to use her or her core competencies in risk management, administration, and communication to assist the subcontractor in overcoming these issues.

In the construction industry, risk is generally transferred to the subcontractor. The least balanced strategy for a subcontractor is broad form indemnity, which completely exempts the general contractor and/or owner from incurring losses related to the subcontractor's performance of work, regardless of the cause or kind of risk. The additional insured endorsement is a distinct risk that may result in the same outcome. The owners and/or contractor are listed as being protected by the subcontractor's commercial general liability insurance. A waiver of subrogation is a third kind of transfer of risk which holds the subcontractor liable for losses controlled by third parties. Signing such waiver, as asked by the general contractor and/or owner, prevents the subcontractor's insurance carrier from filing claims against the contractor to recover funds that the carrier gave out to cover a loss.

4 Practical part

This section describes the practice work done as part of this research. This chapter presents the analysis results and links the theoretical perspective necessary to understand the implications and the actual experiment's conclusions. It's broken into two parts: As mentioned initially, the analysing procedure and presented in summary. The content in this classification mixture has been divided into a few separate classes in terms of providing a complete picture and enabling the construction of clear framework.

The thesis mainly performs a quality analysis by performing a systematic interview section, with people who operate or have knowledge in the construction industry and who have necessary information about the implementation of the risk allocation in the construction contract. The interviews were conducted by e-mail in total, and 13 interviews were included in the study since they were the only ones that were completed and included replies to all of the questions and then presented in the graphical manner.

4.1 Research Questions

- What are the risks face by the construction contract?
- What are the technologies and practices for implementing risk allocation in construction contract
- How the various type of the construction contract can impact project outcome?

4.2 Interview Questionnaires

Risk allocation in the construction contract is conducted in initial phase for construction project?

- 1) what are the two important risk that influence the construction contract in project
- 2) selection of the contract type can assist for allocation of the risk?
- 3) In your opinion, is it important to build owner contractor relationship for successful implementation of project?
- 4) Changes of the legislation policy and regulation affect construction contract in the project?
- 5) In your opinion, at what extent termination of the contract can impact the outcome of the construction project?

- 6) Based on your experience a what are the two most prominent challenges faced by the construction project for risk allocation contract?
- 7) Do you agree risk allocation within construction project is in the construction party control?
- 8) In your opinion, provide the likelihood impact of below describe four project risk in the construction project?
- 9) Do you agree the formal predefined process need adopt in construction project for risk allocation in contractual procedures?
- 10) In your opinion what is the most successful procurement methodology for allocating risk in construction contract?
- 11) What are the most two prominent factors for using a contract time in construction project?
- 12) Based on your experience, what are the three most incidental risks their connected to the poor outcome of the project?

The following section outline the results from the interview section that consisting of the all the outcome of the research. Interview analysis

Risk allocation in the construction contract is conducted in initial phase for construction project

Responses	Frequency	Percentage
Yes	11	73.33
No	4	26.64

Table 1: Risk allocation in the construction contract is conducted in initial phase for construction project

Source: (Interview analysis, created by the author)

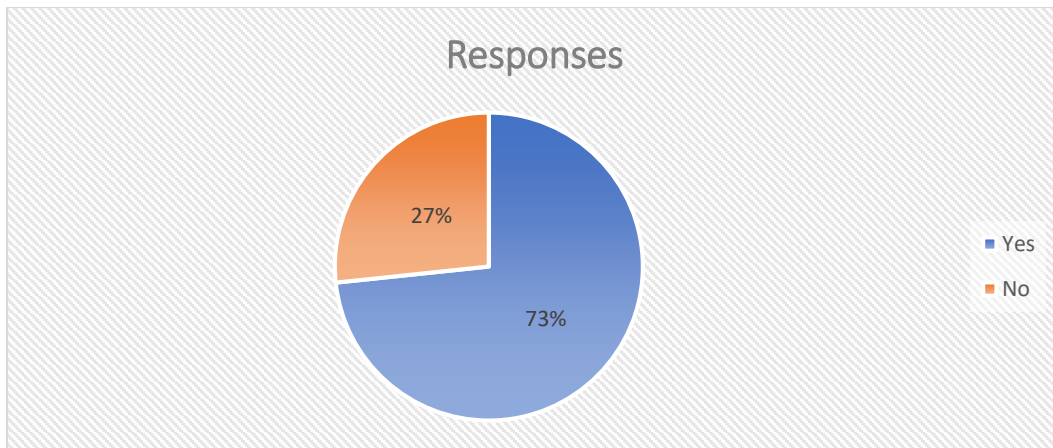


Figure 8: Risk allocation in the construction contract is conducted in initial phase for construction project

Source: (Interview analysis, created by the author)

In the above graph, 73.33% are saying that risk allocation in the construction contract is conducted in initial phase is required. Risk allocation is a process of identifying risks and establishing and to what level they should be shared among various parties and organisations. The majority of owners recognise that risk is an inevitability of the construction phase and that it cannot be completely avoided. While 26.64% are saying no to above question.

What are the two important risk that influence the construction contract in project

Risk of suffering losses due to the buyer failing to meet contractual obligations, including but not limited to situations in which the buyer is unable to pay.

Responses	Frequency	Percentage
Owner risk	12	80
Designer risk	5	33.34
Contractor	10	66.66
Supplier risk	7	46

Table 2: what are the two important risk that influence the construction contract in project

Source: (Interview analysis, created by the author)

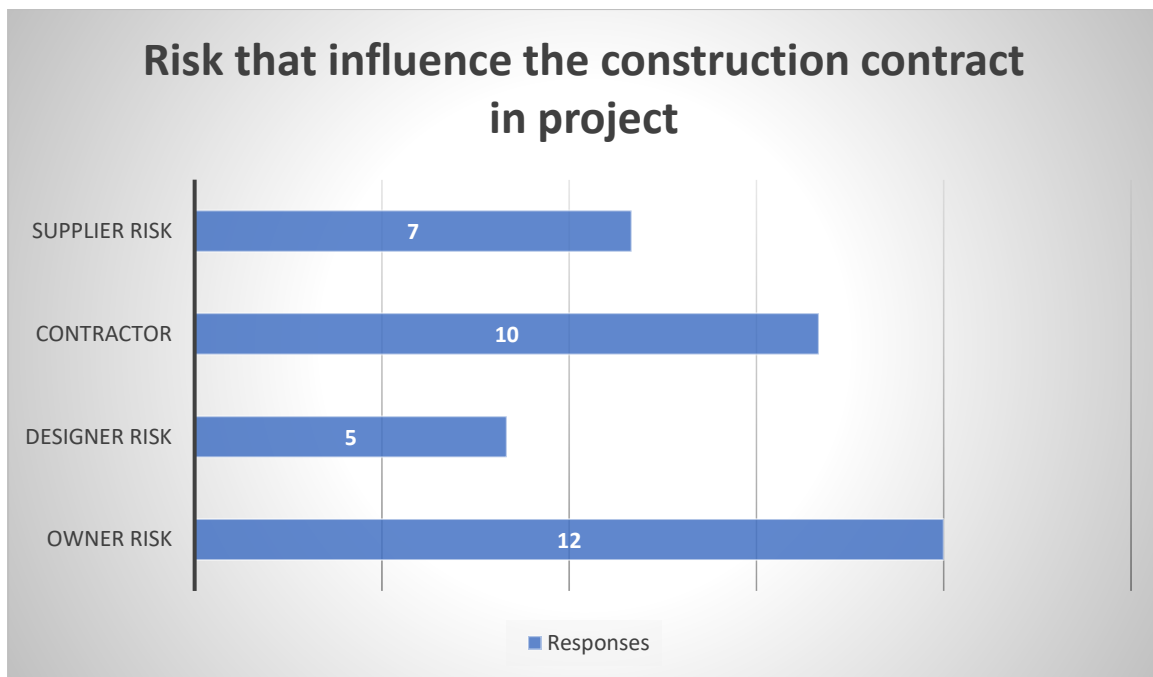


Figure 9: what are the two important risk that influence the construction contract in project

Source: (Interview analysis, created by the author)

In the above graph, risk that influence the construction contract in project are shown. Here most people saying that owner risk and contractor is 2 main risk which affected the construction project most. Identification, analysis, mitigation, and control of project risks are all responsibilities that fall under the purview of project risk management. These responsibilities also include acceptance of project risks, modification, and termination of the project, all of which fall under the owner's purview. A buyer's failure to meet the terms of a contract, including the possibility of financial loss, is known as the risk of contractor risk. Here 80% of people saying that owner risk is most important risk in project and 66.66% are saying that contractor risk is second important risk in construction project. Supplier risk and designer risk are having 46% and 33.34% respectively.

Selection of the contract type can assist for allocation of the risk?

Responses	Frequency	Percentage
Yes	9	60
No	6	40

Table 3: selection of the contract type can assist for allocation of the risk?

Source: (Interview analysis, created by the author)

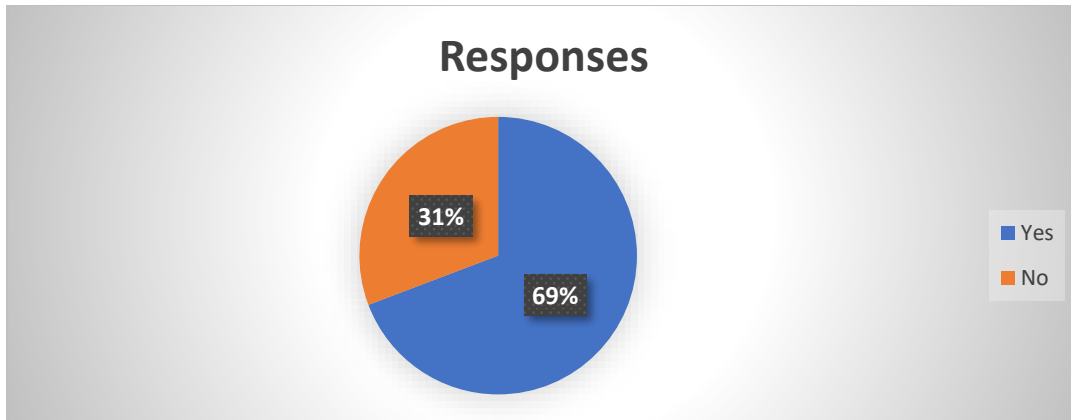


Figure 10: selection of the contract type can assist for allocation of the risk?

Source: (Interview analysis, created by the author)

In the above graph, 60% are saying that selection of the contract type can assist for allocation of the risk. The selection of contracts is dependent on the degree of uncertainty in their scope, the assignment of risk, the need for general costs, and the necessity of achieving milestone dates. Whenever the project's scope is well specified, the total cost is a fixed amount. While 40% are saying no to above question.

Important to build owner contractor relationship for successful implementation of project

Responses	Frequency	Percentage
Yes	12	80
No	3	20

Table 4: Important to build owner contractor relationship for successful implementation of project

Source: (Interview analysis, created by the author)

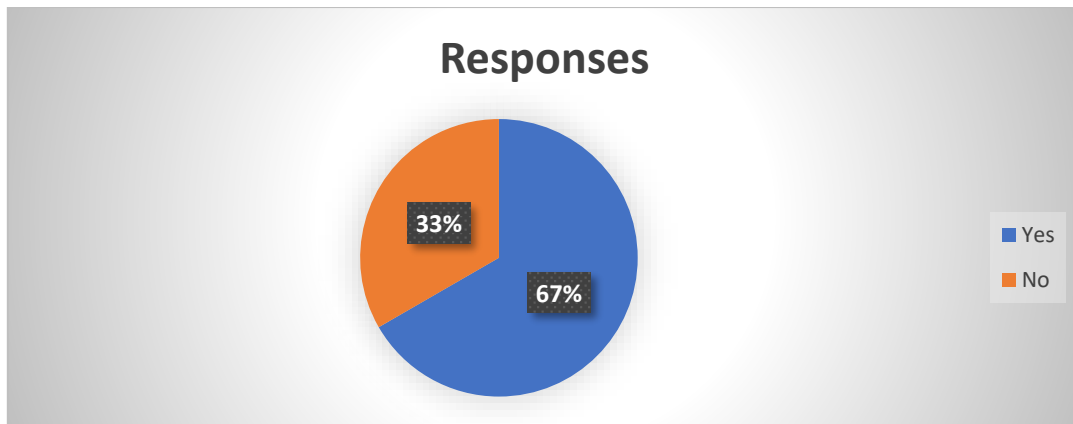


Figure 11: Important to build owner contractor relationship for successful implementation of project

Source: (Interview analysis, created by the author)

In the above graph, 80% are saying that the build owner contractor relationship for successful implementation of project is very important. As part of the installation of the work, the owner is responsible for providing efficient and complete relevant data, which may become essential. The contractor is generally in charge of ensuring that the job is appropriately laid out and completed. While 20% are saying no to above question.

Changes of the legislation policy and regulation affect construction contract in the project?

Responses	Frequency	Percentage
Yes	13	86.67
No	2	13.33

Table 5 Changes of the legislation policy and regulation affect construction contract in the project?

Source: (Interview analysis, created by the author)

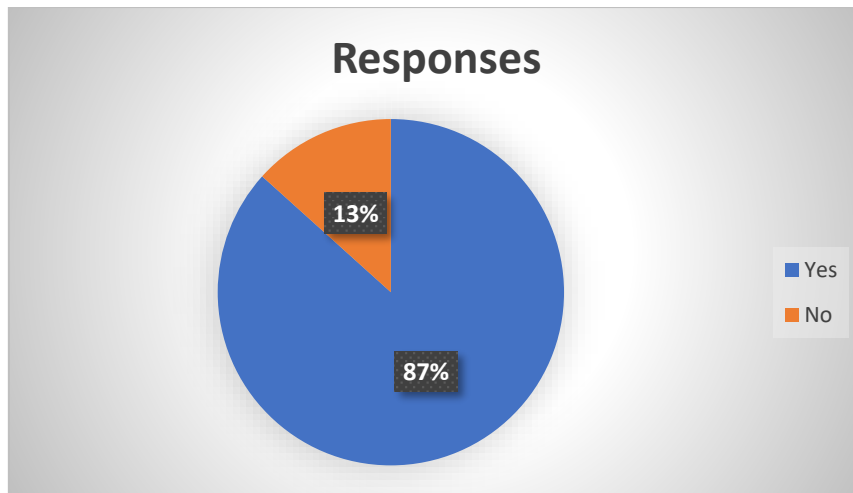


Figure 12: Changes of the legislation policy and regulation affect construction contract in the project?

Source: (Interview analysis, created by the author)

In the above graph, 86.67% are saying that the changes of the legislation policy and regulation affect construction contract in the project. Making a planned development is made easier with the aid of building by-laws. As a rule, purchasers of both under construction and completed real estate should have a solid understanding of the building codes and regulations that apply in the area where they are purchasing the property. While 13.33% are saying no to above question.

What extent termination of the contract can impact the outcome of the construction project?

Responses	Frequency	Percentage
Yes	12	80
No	3	20

Table 6: what extent termination of the contract can impact the outcome of the construction project?

Source: (Interview analysis, created by the author)

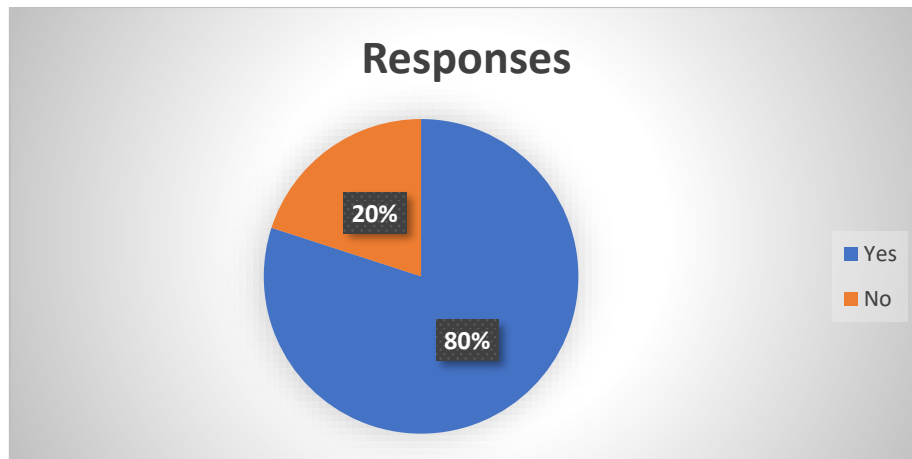


Figure 13: what extent termination of the contract can impact the outcome of the construction project?

Source: (Interview analysis, created by the author)

What are the two most prominent challenges faced by the construction project for risk allocation contract?

Responses	Frequency	Percentage
Designer risks	11	73.33
Contractor related risks	10	66.66
Employer related risks	8	53.33
Lack of coordination risks	14	93.33

Table 7: what are the two most prominent challenges faced by the construction project for risk allocation contract?

Source: (Interview analysis, created by the author)

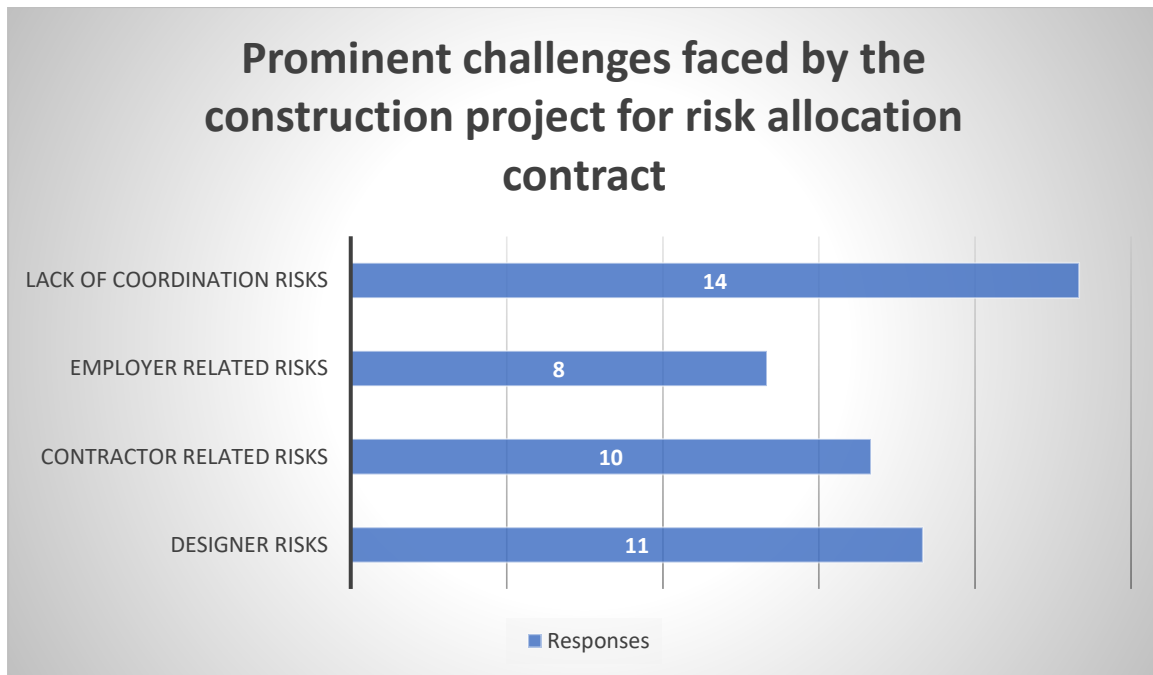


Figure 14: what are the two most prominent challenges faced by the construction project for risk allocation contract?

Source: (Interview analysis, created by the author)

Agree risk allocation within construction project is in the construction party control?

Responses	Frequency	Percentage
Yes	10	66.66
No	5	33.34

Table 8: Agree risk allocation within construction project is in the construction party control?

Source: (Interview analysis, created by the author)

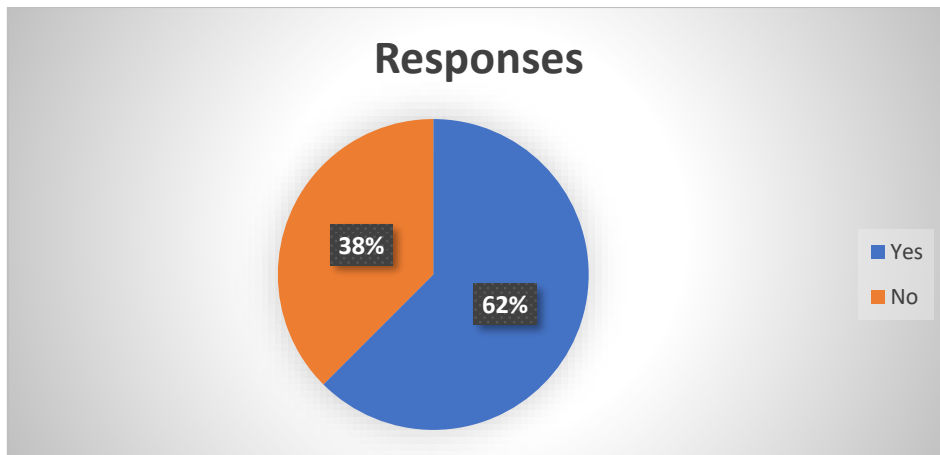


Figure 15: Agree risk allocation within construction project is in the construction party control?

Source: (Interview analysis, created by the author)

Provide the likelihood impact of below describe four project risk in the construction project?

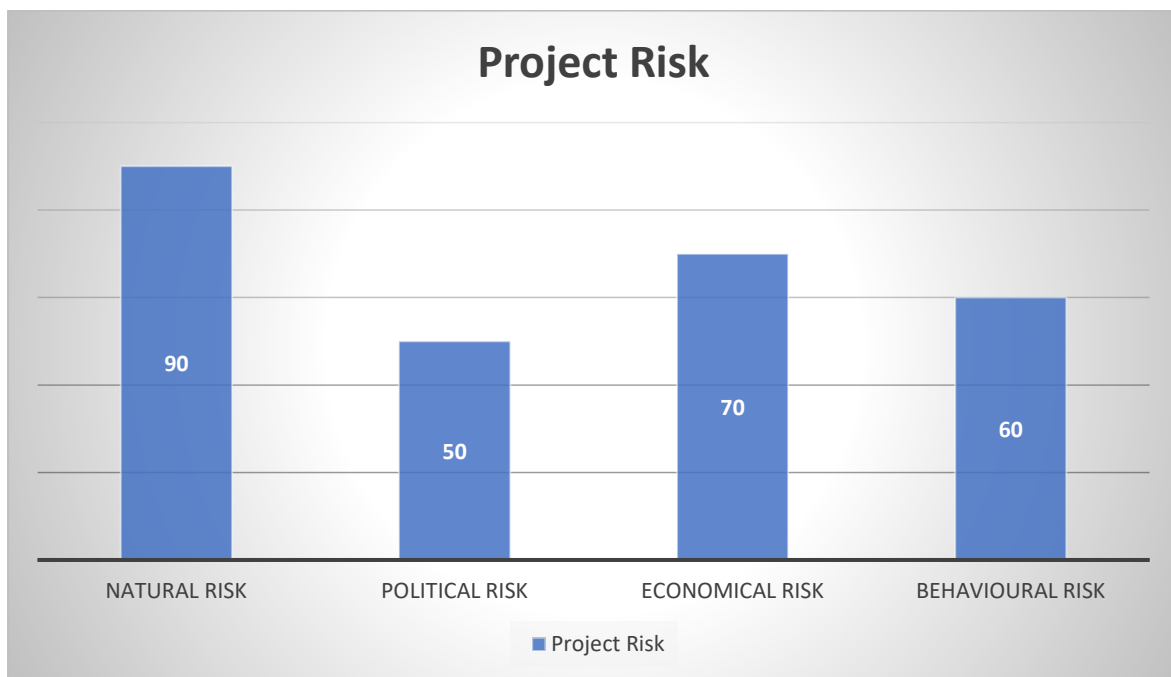


Figure 16: Provide the likelihood impact of below describe four project risk in the construction project?

Source: (Interview analysis, created by the author)

The formal predefined process needs adopt in construction project for risk allocation in contractual procedures?

Responses	Frequency	Percentage
Yes	9	60
No	6	40

Table 9: the formal predefined process needs adopt in construction project for risk allocation in contractual procedures?

Source: (Interview analysis, created by the author)

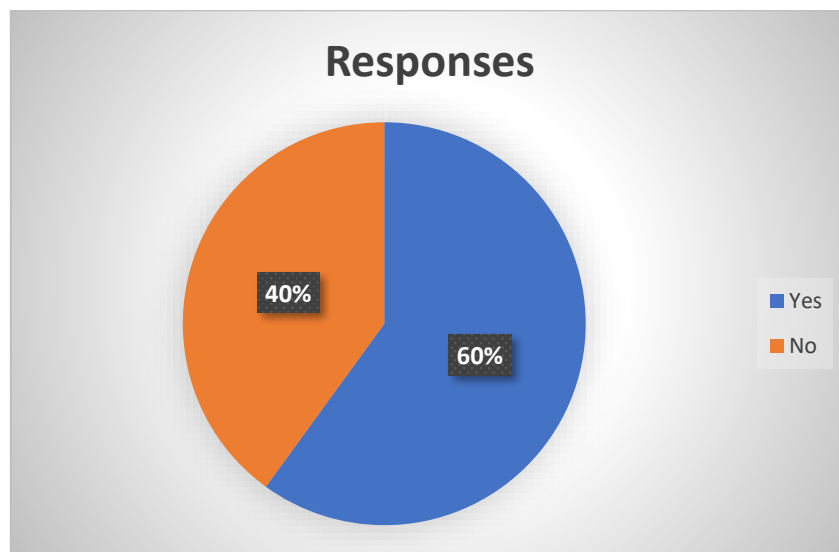


Figure 17: the formal predefined process needs adopt in construction project for risk allocation in contractual procedures?

Source: (Interview analysis, created by the author)

What is the most successful procurement methodology for allocating risk in construction contract?

Responses	Frequency	Percentage
Traditional procurement process	11	73.33
Design and build	10	66.66
Management contracting	8	53.33

Table 10: What is the most successful procurement methodology for allocating risk in construction contract?

Source: (Interview analysis, created by the author)

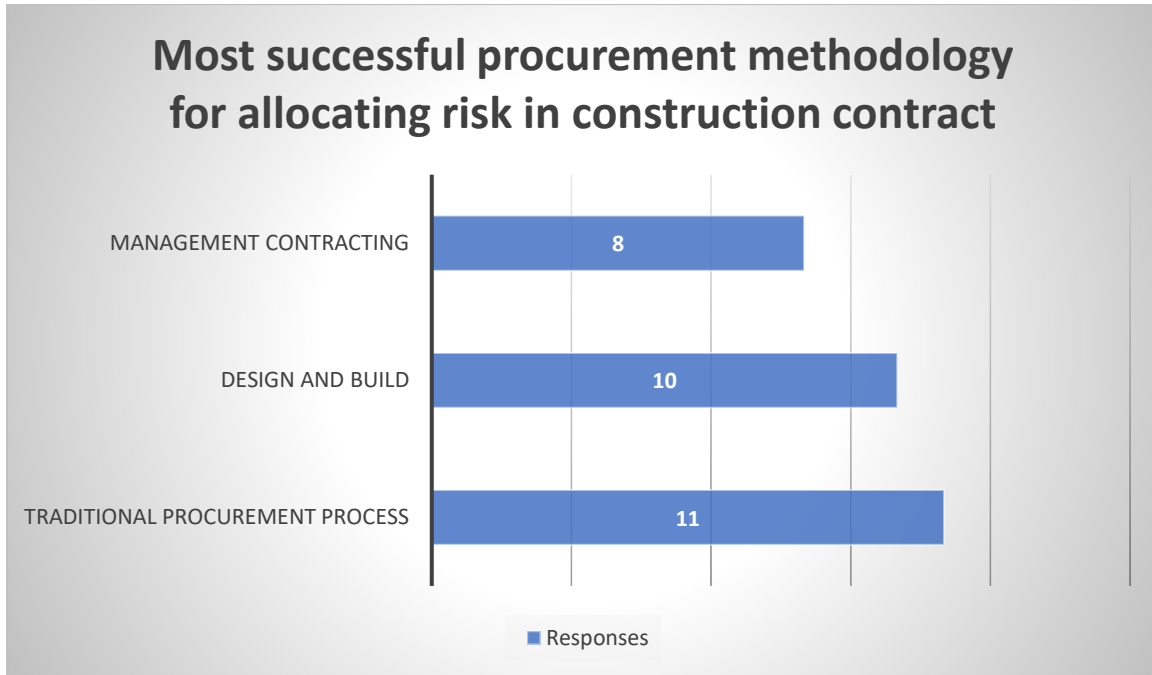


Figure 18: What is the most successful procurement methodology for allocating risk in construction contract?

Source: (Interview analysis, created by the author)

Two prominent factors for using a contract time in construction project?

Responses	Frequency	Percentage
Budget	12	80
Quality	10	66.66
Speed and time	12	80
Assets ownership	6	40
Project constraints	8	53.33

Table 11: Two prominent factors for using a contract time in construction project?

Source: (Interview analysis, created by the author)

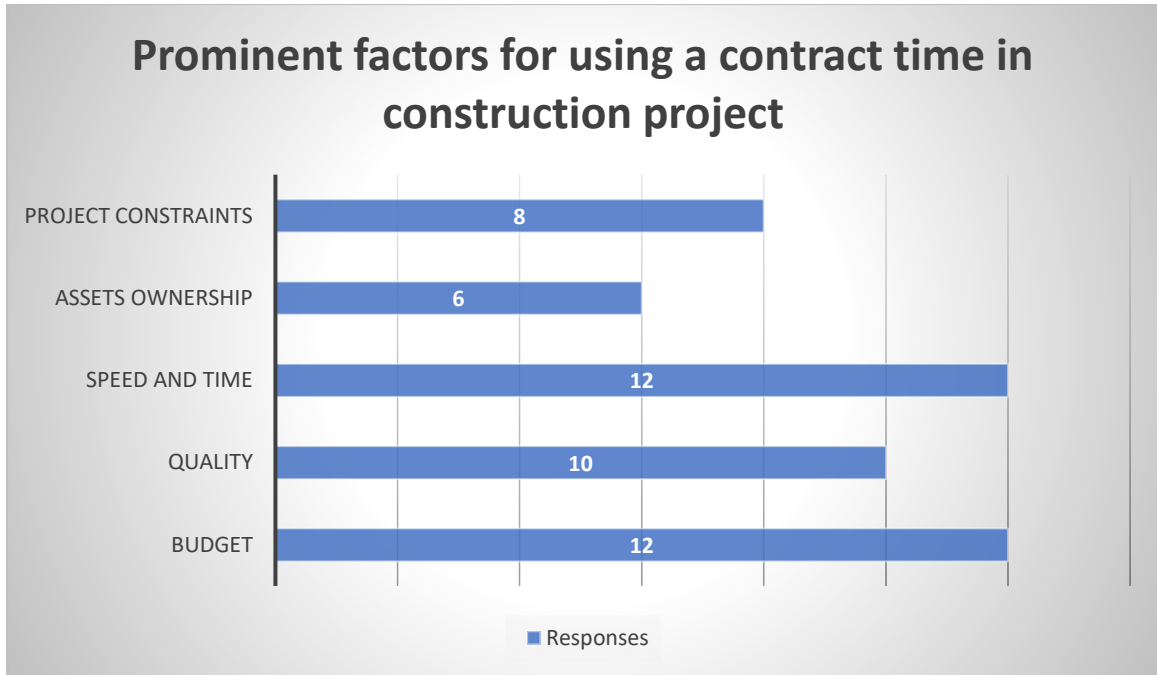


Figure 19: Two prominent factors for using a contract time in construction project?

Source: (Interview analysis, created by the author)

5. Result and Discussion

5.1 Result

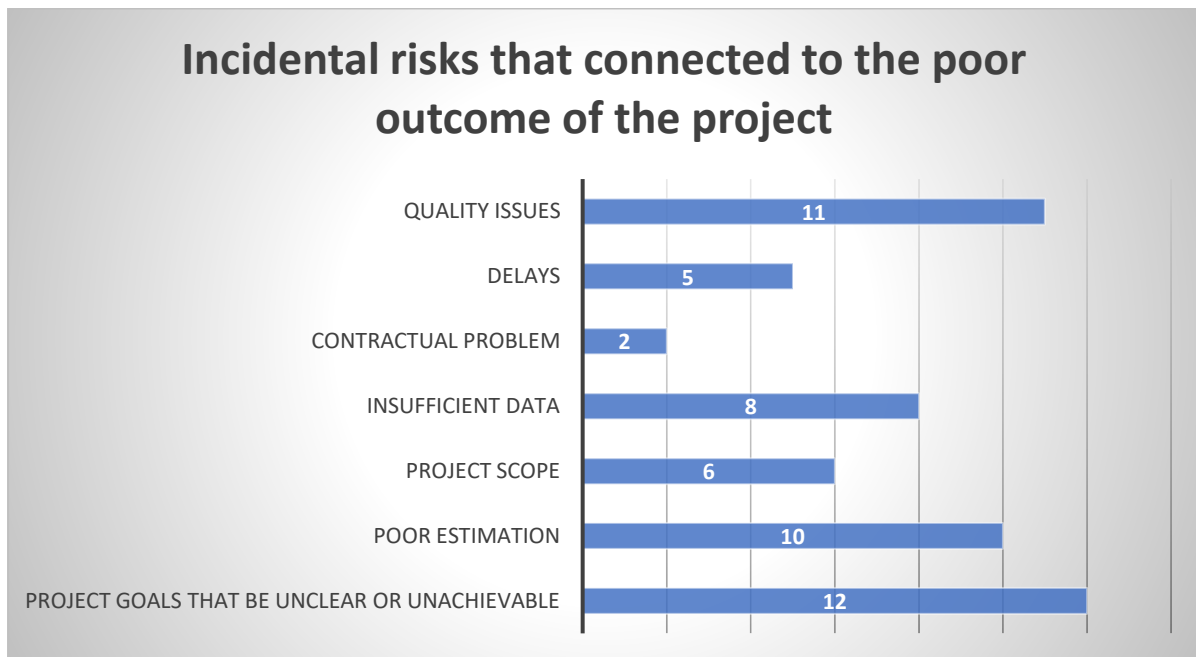


Figure 20: Incidental risks that connected to the poor outcome of the project

Source: (Interview analysis, created by the author)

Responses	Frequency	Percentage
Project goals that be unclear or unachievable	12	80
Poor estimation	10	66.66
Project scope	6	40
Insufficient data	8	53.33
Contractual problem	2	13.33
Delays	5	33.34
Quality issues	11	73.33

Table 12: Incidental risks that connected to the poor outcome of the project

Source: (Interview analysis, created by the author)

5.2 Discussion

5.2.1 Awareness of The Concept of Risk Management

As observed inside the review of the literature, different researchers' risk can be defined inside a variety of ways. The majority of criteria used the word risk inside a negative sense, and this negative phrase is being used for the purposes of this study. In other terms, risk is indeed an unforeseeable event or series of events that, should they occur, may have a negative impact on one or all of the project's scope. The following is indeed a definition of danger: Risk management is an essential element of every enterprise because it seeks to discover, analyse, and assess the risks so order to minimise their influence on the program's successes or failures.

According the findings of this study's survey, the great majority of those that participated was acquainted with concept of risk control.

5.2.2 The degree toward which risk management techniques in building contracts are employed.

Exactly the sort risk inherent in the construction project, and the conditions of the contract with the client, have a significant impact on risk management function. For sake of the research, a risk is defined as one who has a negative impact on a project; as a consequence, risk management is described as the process of response to negative risk, those are those that create difficulties in meeting the project's objectives. Risk management is essential for construction businesses, according to study. Using risk management strategies during the contract stage can help improve knowledge of how to cope with dangers, which in turn may help strengthen the partners' connection and encourage efficiency. It really is determined by the nature and geography of a task, the involved parties, the legal context, and the type of inherent risk in the venture, among many other things.

Some of the hazards cited in the literature study include contract risk, risk, investment risk, geopolitical risk, and operator risk. Operational risk, financial/econometric risk, and political/economic risk are among the other hazards highlighted. Risk management can be defined in this term as a method that decreases the likelihood of a risk occurring or the impact/consequence of the risk on projects. If a hazard is very unlikely to occur as well as its consequences are insignificant, it is of minimal importance to the persons involved. If, on the

other side, it is likely to occur and result in significant ramifications for all involved parties, this risk is of significant concern to everybody concerned.

5.2.3 The effects of different areas and causes of risk on project objectives

This section contained responses to questions concerning managing risk in the signed contract, and the influence it has on the project's goals. The agreement, as demonstrated by the literature review, is indeed an important component in the risk reduction procedure. According the findings of the literature review, recognising the associated risks with each type of contract and choosing a suitable sort of contract for the business may greatly decrease overall impact of the risk just on project's goals.

A number of types of contract may be selected and employed due to the nature and complexity of a project. The agreement is between the client as well as the consultant and between the client and contractor, depending on circumstances. A range of risks are linked with various types of contract. The majority of respondents (89 percent) stated that unit price agreements were most often used kind of building legal contract in Ethiopian construction projects including structure construction.

Risk is indeed a significant component inside the construction sector, and it is likely one of the most critical aspects that can have a significant influence on the final cost of a given project. As a consequence of a number of factors, the level of risk connected with construction process has grown dramatically during the previous 50 years. Despite this, the mechanism for allocating risk has not changed in terms of the proportion the risk allocated (Hartman, 2000). Risk distribution is unavoidable in just about any situation where more than one entity (like the proprietor, subcontractor, expert, or even other third party) is responsible for the successful completion of a project. It is recommended practise in any project to make sure that almost all hazards are identified and dealt with efficiently. This activity is critical since resource allocation can have a significant impact on the behaviour of construction stakeholders, which could have a negative impact both on project achievement and the total cost.

5.2.3.1 Contract and Project Risk

The most efficient strategy is for owners to achieve his or her objectives in any particular project is to choose the contract that will most effectively motivate the contract to complete the project. This step also is dependent just on veracity of the information provided to a bidder(s)

during the tender, as well as the level to which the owners is ready to take specific risk. In this sense, contract risk may be classified into two categories: unintended effects and depends on the price. In this framework, every agreement allocates risk in the same manner. Not that all agreements transfer risk in an equitable manner, or in a way that capacity and duty to manage risk are allocated along with the risk themselves, as some do. If given a choice, a construction manager should choose effective risk distribution across the client and/or, which lowers the risk while boosting performance of the project. However, it appears that, at least in the sense of a founder relationship, the common objective of proprietors is to reduce risk by transferring as many liabilities to the contract as feasible.

5.2.3.2 Risk Allocation in Contracts: Disclaimer Clauses

Any building project has some level of risk, and there is no way to permanently eliminate all the risks associated with a certain job in preparation. All that can be done is manage the risk that's also allocated to different parties and then manage that risk appropriately. ... Companies frequently use disclaimer (exculpatory) clauses in business contracts to shift the bulk of project responsibility to another holders (typically the contractor). The goal of these kind of clauses is to transfer one party's risk (which may be a legal duty) to another via the use of project charter. For better or worse, these restrictions are intended to minimise an owner's liability in agreement and, more often than not, in court for expenditures incurred by a contractor on his or her behalf.

Because the contract contains a disclaimer language that transfers some kinds of risks from the provider to the customer, problems begin to surface at this point. When a risk is passed to a contract and the employer has no way of controlling the risk's occurrence and outcome, then contract must either insure against the risk and include a contingency in the current bid to prevent losing the contract. According to two new research, the use of disclaimer clauses in Canadian contracts is connected with a price ranging from 8% to 20%, depending on whether business conditions are good or bad. Such an increase would almost probably have a significant effect on projects with worth millions of budgets. Another, less evident, consequence of shifting construction risk via disclaimer clauses is a number of hidden costs, such as diminished bidding competition, a greater possibility of claims and arguments, and, most critically, more hostile owner-contractor relationships. Each of these research looks at one of the top five disclaimer clauses included in construction contracts, and are as follows: (1) Uncertainty of job

conditions; (2) Delay events; (3) Indemnity; (4) Liquidated damages; and (5) Agreement paper adequacy.

Exhibit 1. Perception of Disclaimer Clauses Risks Under Low and High Trust Relationships

Disclaimer Clause	Low Trust Relationship	High Trust Relationship
Uncertainty of work conditions	4.5	2.4
Delaying events	4.5	2.4
Indemnification	4.4	2.2
Liquidated damages	4.3	2.1
Sufficiency of contract documents	4.5	2.1

Figure 21: various disclaimer clause

Image source: (Wang et al., 2020)

It has been proposed that the contractor's risk-taking behaviour dictates the degree of implied volatility associated with contract disclaimer clauses. To put it differently, a risk-averse contractor is more likely to pay a more significant premium for a disclosure clause than a risk-taking contractor. However, according to the conclusions of this study, that's not the only factor to consider. The contractor's appraisal of the risk connected with the disclaimer's clause calculates the premium quantity.

This suggests that the premium will be considered if the contractor sees a large amount of risk connected with the disclaimer clause. One of the study's most remarkable conclusions is that there is a statistically significant relationship between the number of premiums associated with disclaiming clauses and both contractual parties' perception of trust. In low-trust relationships, risk perception linked with disclaimer clauses is robust (average of 4.4 out of 5 points scale). Conversely, when two individuals have a high degree of trust in each other, the perceived threat of disclosure clauses is reasonably minimal.

Trust Type	Level
Blue (competence) trust	4.3
Yellow (integrity) trust	4.3
Red (intuitive) trust	3.3

Figure 22: various trust types

Image source: (Wang et al., 2020)

Another significant finding of the study is that the level of trust among contractual players in the construction industry contracts is low (on a scale of 1 to 5 points), indicating the level of mistrust in the sector's contracting process. According to the study's results, the risk allocation contractual strategies of the owner and the contractor are primarily driven by their degree of trust (or mistrust). Suppose the owner-contractor relationship is founded on mutual trust. In that case, the premiums associated with disclaimer provisions will be limited, if not non-existent, since the disclaimer clauses would not have been included in the contracts from the start.

5.2.3.3 Have Contracts Reviewed by a Knowledgeable Attorney

A risk evaluation study is not a replacement for competent legal advice in all situations. Ahead of implementation, all contracts and accompanying papers should be examined and authorised by legal representation to ensure they are legally binding. Multiple contracts are involved in any project construction, which may be compatible with and complementary to one another. The needs of project lenders and owners regarding payment time and constraints must be appropriately drifted down throughout all commercial agreements to ensure that payment conditions are consistent across all contracts. The further problem is that many lenders, owners, and contractors utilise antiquated integration with security and compensation obligations that are either unenforceable or otherwise impossible to acquire. Forcing a participant to get protection in a manner that is no longer usable or to acquire protection at a prohibitively expensive rate is not in the project's best interests. An expert lawyer needs to analyse the contracts to ensure that similar issues do not arise in the future. Also, and perhaps more crucially, there is no alternative for each party correctly read and comprehend their contract

before entering into it. Besides the obvious difficulties of mistakes and misleading information that enter into negotiated contracts, a thorough review may discover different hazards, wrongly assigned liabilities, and other difficulties that a lawyer, who is frequently not as acquainted with a business as the customer, would miss. It is essential to remember that few contracts are "excellent," and thorough contract evaluation is among the essential elements in the risk assessment process.

6 Conclusion

This analysis had three primary steps, one of which was to indicate the degree of use of contract administration risk control in a construction project, to evaluate the level of consciousness about contract administration hazard management of multiple contract terms relevant parties within those initiatives and to analyse the impact of contracting managing risk in meeting project's goal. The studied literature demonstrated that building contract hazard management is critical. Various risk management approaches should be implemented beginning from the commercial stage and make initiatives effective.

The moderate conversation was created to determine whether the absence of efficient risk management methods would contribute to the failure like most construction activities, among other factors. The interview included all of the related research inquiries that would assist answer the study questions. Preventative risk assessment is preferable to reacting to an event. With appropriate planning, recognizing and controlling risks might be difficult but not impossible. A project may be derailed and disrupted when the danger becomes a reality. For the building contract to prevent a tragedy, all parties involved must appropriately analyze, control and report the risks that have been identified. All people engaged in a risky situation must work together and communicate openly to get the best results. Risks may be avoided if everyone else is involved again to control and assess them early on. Remember that a well-managed risk may provide enormous returns. Regular training and seminars on risk assessment are needed for those participating in infrastructure projects since it was found that a lack of knowledge was a crucial factor in their trust issues in their utilization. Training courses and seminars on risk assessment should be made available to all stakeholders, and everyone should be encouraged to attend.

Building construction projects in should have a risk management team in place. As part of the construction agreement, appropriate risk provisions are included, and the risk should indeed be assigned to the partner with the most remarkable ability to control its a result of this study, urge that the stakeholders engaged in the building sector be more collaborative by collaborating and providing any necessary assistance.

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