

Chapter 60

Risk Management Decisions and Organizational Structure in the Case of a Development Management Firm: Millennium Development International

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ABSTRACT

This case aims to analyze risk management practices of Millennium Development International (MDI) and suggest enhancements based on a theoretical framework derived from the literature while considering the implications to its organizational structure. Al-Shamiyah project in Makkah, Saudi Arabia, is used as an example to illustrate the practices of MDI. Due to a high level of risk associated with large-scale development projects, it is argued that the traditional risk management approach is not convenient to the context of these projects. Each large-scale project has a high level of uniqueness that renders benchmarks generated out of previous projects obsolete. Hence, a reactive risk management approach is being promoted. For the purpose of optimizing this approach, engaging necessary experts and securing the presence of key decision makers in the process, the formulated system defines key milestones at which risks need to be assessed and proper decisions need to be taken.

ORGANIZATION BACKGROUND

Millennium Development International (MDI) is an investment and development holding established in the Cayman Islands in 1999. MDI provides integrated development management services for third party developers. MDI owns Millennium Development s.a.l. (Millennium), a Lebanese limited liability company based in Beirut, Lebanon; a developer and development management entity with a highly competent management and staff and proven track record in large scale and mixed use development projects.

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Millennium's expertise is wide, and is delivered under the umbrella of development management whether for real estate projects, land development projects or a combination of the two. Millennium calls on the expertise of its group as the project goes through its development cycle, starting from inception, evaluation, execution and all the way through operations. Millennium offers tailored services for all or certain parts of the real estate development cycle.

Millennium key employees and directors have more than twenty years of professional expertise in the fields of real estate development, urban planning, urban design, architecture, finance, project and construction management. The multidisciplinary background of the company's key staff empowers it to provide services in all aspects of real estate and land development projects, large scale planning, urban design, and project management.

Despite the fact that MDI's work is focused in the Middle East, lately its area of operation extended to Kazakhstan and Malaysia. MDI is known to be the first company in the Middle East to provide this service. During this period, MDI provided development management services for many prestigious projects in the region. From these projects, it's worth to mention the Haram plaza expansion in Makkah, the downtown of Amman (Al Abdali project), Jabal Omar project (the first project to be listed for public trade in the Kingdom of Saudi Arabia), Sannine Zenith of Lebanon (one million meter square project constituting one percent of Lebanon's area), Aktau city in Kazakhstan (five million meter square project) and Medini city in Malaysia (one and half billion USD investment).

SETTING THE STAGE

As risk identification is the initial step in risk management, understanding risks and their categories is essential to come up with an effective risk management system. As no references were found on risks related to the whole process of development management, other relevant bodies of literature were investigated, namely, literature focusing on the construction part of development, sustainability and private public partnership. The identified list of risks was organized along the three risk environments that were found to be applicable in the context of large scale development projects, namely, project environment, external environment and institutional arrangement. However, little was found on how to mitigate these risks. Hence, this represents a gap in literature to be covered. Risks at the project environment level include market, financial, technological, management, technical and operational risks (Datta& Mukherjee, 2001; Dey, 2009; Gil, 2009; Perera, Dhanasinghe, &Rameezdeen, 2009; Siebert, 1987). At the level of the external environment, the risks include political, social, environmental and economic risks (Datta& Mukherjee, 2001; Dey, 2009; Gil, 2009; Lehtonen, 2004; Perera, Dhanasinghe, &Rameezdeen, 2009; Senge&Carstedt, 2001; Senge, Lichtenstein, Kaeufer, Bradbury, & Carroll, 2007; Siebert, 1987). Risks at the level of institutional arrangement include opposition of interest, multidisciplinary nature of projects under discussion, political conflicts, lack of approvals facilitation and over optimism (Vanmarrewijk, Clegg, Pitsis, &Veenswijk, 2008, Koppenjan&Enserink, 2009, Sagalyn, 2007, Zhang, 2005). The identified list of risks was used to analyze the case study and reveal faced risks and challenges that are illustrated in the following section.

As far as the risk management approach for large scale projects, two main strategic approaches for risk management of large scale projects were identified on this front. The first approach promotes subdividing large scale projects into smaller work packages (Verveniots 2008). This approach assumes that the

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