Practical guide to developing a risk management program

sage

Seven steps to developing an effective risk management program

A risk management program can be applied at any construction company, no matter the size. While larger companies may require a dedicated risk manager or department, any program that methodically addresses a contractor's various risks—both at a corporate and project level—can help increase the company's ability to successfully achieve its objectives. There are many ways to set up an effective program. Here are some basic guidelines recommended by risk management experts:

1. Start at the top.
2. Create a risk management policy.
3. Identify your risk.
4. Assess and prioritize.
5. Decide on a course of action.
6. Assure accountability.
7. Monitor the effectiveness of your program.

Start at the top.

To be successful, a risk management program needs to be led by your top management team. Company leaders have knowledge of your organization's goals and the processes required for effective risk management. And they can set the stage for a risk-aware culture within your company.

Create a risk management policy.

Risk is an inherent part of the construction business. Yet every contractor has his or her own tolerance for risk and approach to how it should be handled. A risk management policy puts that information in writing and clearly establishes responsibilities for risk management throughout the organization. It's important to provide your managers and employees with the guidance needed to understand and manage risks at all levels.

Identify your risk.

An internal audit can help identify risks associated with your objectives and key business areas such as long-term strategy, day-to-day operations, financial management, contracts, and regulatory compliance. Your insurance company or an outside risk consultant can help you perform the internal audit, but it's essential that you maintain in-house ownership of the process. Identifying risks starts with your annual business plan and continues throughout the year, in particular at the beginning and during the course of each construction project.
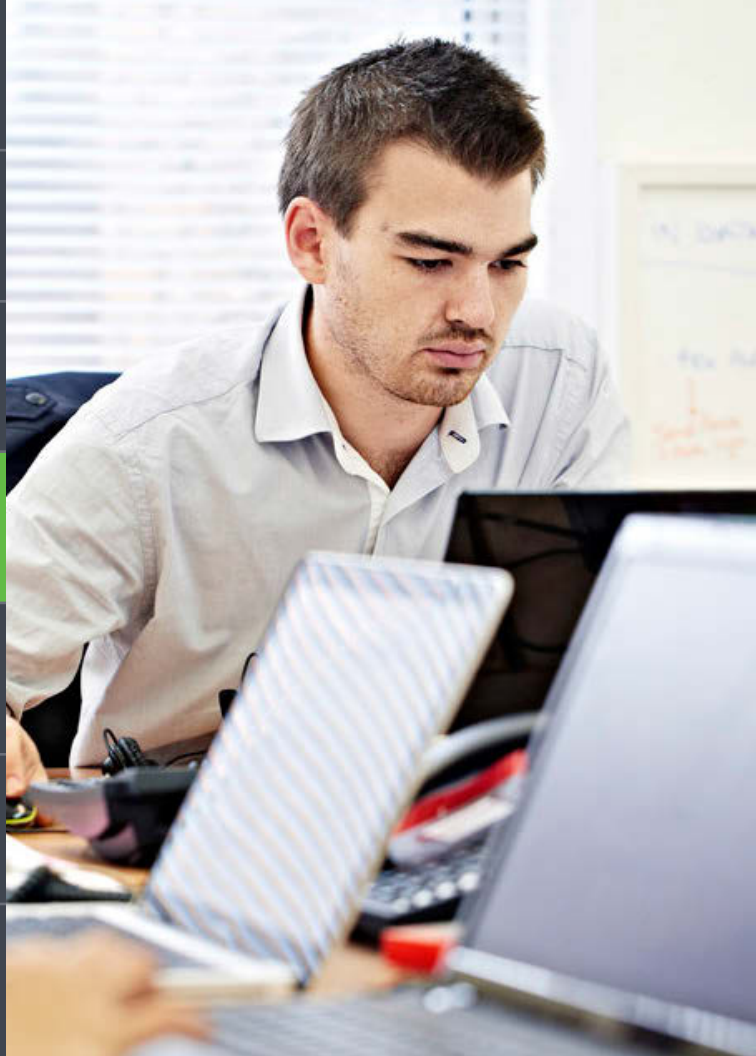
Assess and prioritize.

It's not practical, nor cost effective, to address every risk your company may face. To help you focus on what's most important, you should assess each identified risk in terms of its impact on your company and the probability of the risk's happening. This doesn't have to be an exhaustive process—a simple one-page worksheet may be all you need. The key is having a systematic way to outline, evaluate, and score all the risks you might face. This rating will help you more objectively prioritize your risk.

Make a plan.

There are several ways to handle risk, including:

- **Control**—reduce the impact and chance of a risk's occurring.

- **Avoidance**—avoid activities that could cause risk, for example riskier projects.

- **Contractual transfer**—contractually shift the risk to another party.

- **Financing**—arrange for internal company funding or external funding, such as insurance, to pay for possible losses when they occur.

No matter which course you take, always consider the cost of implementing your strategy compared to the expected risk reduction benefits.

Assure accountability.

Make sure everyone in your company is aware of the risks and corresponding responsibilities that fall into their area, as well as how they impact the organization. This includes promptly reporting new risks and failures and brainstorming ideas on how to continuously improve the program.

Monitor the effectiveness of your program.

Too many times, companies set up programs and assume they are working, only to find out several months later that processes are broken and the results are not what they expected. To ensure your program's success, define overall program goals and assess progress regularly. When setting up your risk management processes, include ways to monitor key risks (such as subcontractor insurance expirations or profit erosion) and establish escalation processes when those risks exceed specified levels. Risk management should also be a regular item on your management meeting agendas.

An effective risk management program will continually adapt based on how it is working and ways you can improve it. You should also adjust your risk management plan based on changes in organizational goals, risk management techniques, and even attitude toward risk.

sage