

Editorial | Risky Business! Who Knew?

Protect your Firm with a Culture of Risk Management

By David W. Mykins, P.E., Chair CASE Executive Committee



I was recently having lunch with an insurance broker and mentioned that I was involved in CASE. I explained that CASE provides risk management tools and guidelines to help structural engineering firms improve their business practices and reduce their liability exposure. He looked confused and asked me what risk management meant for a structural engineering firm. He was in the health insurance business, and he understood quite clearly how risk management was applied in the process of underwriting insurance. There is a wealth of statistical data available to help underwriters predict the risks associated with insuring an individual based on objective data like age, gender, and current health. However, what do structural engineers need to know to limit their business risk?

To answer that question, let's first examine some basic facts about structural engineering claims. Here's a slightly scary statistic: structural engineers have the highest claims-to-revenue ratio among practitioners in the Architectural-Engineering (A/E) field. It is not that structural engineers have more claims made against them. Rather, these claims tend to be higher, per claim, than claims for other types of engineers or architects. In fact, one study showed that for every dollar of professional service fees earned by a structural engineering firm, the frequency of a claim being filed was almost three times that of other engineering disciplines.

So where do these claims come from? Of the claims filed against structural engineering firms, about 13 percent come from claims related to on-site construction phase services. Most of these allege some form of negligence in performing observations or inspections. However, a whopping 70 percent are the result of allegations of negligence in the performance of design services.

As far as types of projects are concerned, residential projects are near the top of the list. Single-family homes and townhouses rank highest in the number of claims made (about 23 percent of all claims) but are almost equal with condominiums in terms of claims paid (12 percent for houses and townhouses to 11 percent for condos).

So how can we reduce the risk of someone making a claim against us? Let's start with the biggest contributor of claims: design services. The best way to begin to manage risk during the design phase of the project is first to create a culture of risk management and claims

prevention within the firm. This starts with an overall awareness of the current culture and how a culture develops within a firm.

Cultures within a company are developed and nurtured by the leadership. For new firms, there is usually a conscious decision about what type of firm you want to be and what your core values are. These are often memorialized in a firm's mission statement. New employees and outside observers often first learn about a firm's culture from their mission statement. These values

are then reinforced by observing the daily actions of the leadership. So to create a culture of risk management and claims prevention, it is important that it be included as one of the firm's core values.

One method to create the right culture at the firm is to have a separate Risk Management Commitment Statement. If a specific reference to risk management does not fit into your overall mission statement, create a separate statement to emphasize this core value. One way to create such a statement is to have each manager develop their version independently. Then meet as a group and choose one or combine the suggestions to form the final version. Then promote this on a daily basis. Make it such a part of the company culture that all employees know it and can repeat it, or else have it readily available to them in some other form.

Once the firm has committed the inclusion of risk management in its culture, there are several ways to reinforce it in daily practice. The first is to create awareness and show commitment with constant reminders to the staff and management of its importance to the firm. This can be done by including risk management and/or quality control items on the agenda for all internal manager and project meetings. Promote open and free discussion of any lessons learned or quality control issues among the participants, not to judge or assign blame, but with the sole purpose of improving the internal business practices.

Reinforce your commitment by providing opportunities for training and continuing education on topics related to risk management. Take advantage of the presentations on risk management provided by CASE. Each year CASE conducts a Risk Management Convocation in conjunction with SEI's Structures Congress and produces a number of webinars. Also, next month CASE is providing a full day program of risk management sessions in Chicago, IL on August 5, 2016, titled *Managing Risk for High Stakes Success*. Sessions for this day are geared toward engineers from project manager level to principals. This full day of sessions kicks off with a welcome dinner presentation on Thursday, August 4, featuring Dr. Ahmad Rahimian of WSP | Parsons Brinkerhoff, who will discuss trends in tall buildings and talk about his experiences designing the new One World Trade Center tower.

For more detailed information about the sessions and how to sign up, contact me or Heather Talbert at htalbert@acec.org or visit www.acec.org/education/seminars. For more information about creating a culture of risk management and other resources for claims prevention, visit the CASE website at www.acec.org/CASE. Remember that awareness and training to improve risk management practices and avoid potential claims may be just the insurance you need to protect the future health of your firm. ■



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