




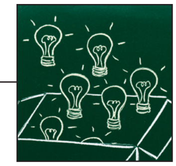

BY DOUGLAS L. RIEDER

# Putting Your Risk Management Strategy in Place

Risk is an ever-present part of doing business in the construction industry. Successfully managing the many moving pieces when a project is in progress, along with the short-and long-term operational aspects of a construction company, is a major challenge.

This article will address the areas in which careful decision-making can help your company manage its risk and prepare it to absorb the occasional bump in the road, ensuring it remains strong and healthy.

## Create an Effective Labor Risk

Historically, construction HR practices have been reactive: first, the contractor gets the job; then, it finds potential workers. However, with the ongoing labor shortage and aging of the workforce, staffing now requires more active engagement. To get ahead of staffing issues, consider implementing a staffing strategy.

For example, one rapidly growing company recently hired a full-time recruiter in addition to an HR director. The role of the recruiter is to maintain a pipeline of workers for the company prior to the need to help fill positions with the right people quickly. Recruiters also help reach current leaders in the industry who are not actively looking for a new job, to establish and promote professional connections for future reference.

The HR director ensures smooth integration of new hires into the company culture. If there are employment issues, this person can help make changes that will benefit the company more efficiently.

In some cases, a company may benefit from hiring an HR team. But if an HR department is too big a stretch for your company, consider hiring a third-party recruiter; an HR generalist who is capable of handling all HR functions is also a practical way to start.

Also, consider participating in local "best places to work" competitions to measure your company against its peers. Retaining good employees should be a priority, and these competitions provide such feedback as whether employees would recommend the company to a friend, if they are happy with the benefits offered, if the company offers a good work-life balance, etc.

You'll receive powerful insights into the level of satisfaction across your workforce, which will also reveal which areas need to be addressed.

## Foster a Robust Internship Program

A healthy company is dynamic and always growing, and bringing in effective and talented new staff is a cornerstone of business success. One way to further this initiative is to establish a robust internship program.

The students will receive valuable work experience (often with some class credit), and you will have an opportunity for an in-depth assessment of their capabilities. If you find a good match, you now have a direct line to a future employee you already know can work well within your company and its culture.

## Mitigate an Aging Workforce

It's well known that employees are aging out of the workforce at an accelerated pace, and that level of skill is increasingly difficult to replace.

Bringing in new workers, making the most of current employees, and finding a place for those aging workers to continue working effectively are all part of a successful strategy. Here are ways to mitigate your aging workforce:

### *Be Active in Construction Associations*

Make it a priority and build connections with technical schools, high schools, and tech competitions. Look for any opportunities to get your name out as an employer for motivated workers.

In addition to raising the profile for your industry, you are raising the profile of your company. When these people are looking for work, your company will already be familiar.

## By looking at ways to keep your company healthy today, while making plans for tomorrow, a little bit of forethought can translate into more jobs, and more profits, in the future.

### *Be an Advocate for the Industry*

Generally, there is a persistent belief that construction is not as worthy a career goal as other white-collar options, even though salary and upward mobility are viable opportunities in the industry. Take the time to go into schools and talk with students about the industry and why it is a solid career choice. Explain the technical sophistication that goes into every project and dispel the "blue collar" myth.

Some construction associations are embracing this concept by advocating for national "skills competitions" among the building trades. This will promote the construction trades as a rewarding career path.

### *Find New Opportunities for Older Workers*

Learn to leverage your more senior workers' skills by creating a mentoring program to pair them up with younger employees. This is a great way to value senior workers and keep them engaged in giving back to their industry. Such an investment will pay long-term dividends to proactive employers.

### *Consider Overmanning Jobs*

Even though this option may push a company's profits down in the short-term, the ultimate investment in future productivity can be worth it. The company will have an ample supply of well-trained workers on hand. This long-term perspective to a short-term problem could translate to more jobs, better jobs, and more profit in the future.

## Choose Projects Carefully

With the recent economic upswing, many contractors are more selective in the work they perform. Choose your terms more carefully; consider which terms you are happy to accept, and push back on those for which you are more reluctant to sign.

For example, a contractor may turn down a major municipal construction project due to strict penalties regarding completion, deciding it would rather pursue other projects with less time pressure. Take your time and make the best decisions for your company in today's financial environment, not yesterday's.

Also, given the labor concerns previously discussed, it is vital that a company does not take on more work than it can staff. When this key discipline is not followed, contractors often experience escalating labor costs, reduced productivity from newer workers, and an uptick in workers' comp accidents, which tend to correlate to an expanding worker pool.

Some of this is structural and only long-term solutions will make a difference. Crafting training from unions and construction associations, more vocational training at the high school level, and perhaps addressing the immigration situation are just some areas in need of attention.

## Accommodate Industry Changes

Contractors should also incorporate industry trends, such as technology, delivery methods, and regulatory issues, into their risk policies.

### *Build with BIM*

Building Information Modeling (BIM) allows contractors to see plans come to life before construction ever starts. This allows more problem-solving to take place in a computer instead of onsite while the project partners wait for a resolution, or worse, work is ripped out and redone. Companies are now hiring talent with that expertise because they have a lot to gain through eliminating conflicts in top trades.

In addition to problem-solving, big GCs want BIM on their jobs because it shows they are savvy to sophisticated architects. Mastery of BIM demonstrates that you are invested in the future of your industry.

### *Get Comfortable with Prefabrication*

The practice of prefabrication, or building components in an offsite facility before delivering them to the main site for installation, is gaining traction. There are several good reasons, such as:

- The subcontractors feel like they have better quality control when they can build components
- The main site is less cluttered with people, so workers find it to be a more familiar, efficient, and hospitable work environment

- If the costs are the same (or less) and the quality is as high (or higher), it's a winning approach that can improve your builds
- You may find yourself depending more and more on subs with reliable modular builds, so strengthen those relationships now

### React to Government Oversight

Government regulations are designed to protect, but situations are often open to interpretation. What is said after an incident occurs can have a profound impact on your company's future, so it's critical to have expert help when engaging with such government agencies as the Department of Transportation (DOT) or Occupational Safety and Health Administration (OSHA).

First, have a plan for jobsite accidents to ensure that these unfortunate incidents are handled appropriately. Staff must be trained and familiar with the plan before anything happens so they can respond immediately and effectively.

Second, train staff not to speak off-the-cuff. Get your risk management team involved immediately – don't wait to call them for damage control. This is an area that could potentially lead to a civil suit by a client, so take no chances with your company's reputation.

A great deal of government oversight becomes public record, making it easy for clients to research your company online in a way that was impossible even 10 years ago. You'll need to have an answer for any questions that arise with potential clients as a result, but your best bet at managing your reputation is to have a plan for everything long before trouble arises.

Agencies like DOT and OSHA publish historical safety data as well as citations, fines, and penalty information related to your company. Be sure someone in your company is educated on all the ways governmental and other regulatory entities measure and report on your company.

## Manage Overhead Risks

One of the largest expenses of all for construction companies is employee benefits and, more specifically, health insurance.

Forward-thinking construction companies provide health care for their employees and often their families. Because funding health care is an expensive proposition, as the cost has been increasing at more than the rate of inflation, ensure you have knowledgeable advisors in areas like self-funding insurance, and directing employees to less expensive medical providers, and pharmacies.

Since the *Patient Protection and Affordable Care Act* (Affordable Care Act or ACA) was passed, more companies are using self-funding to better manage their total health care spend. That is, they assume a layer of self-funding up to a point called a specific "stop loss." Insurance is placed above that amount and that higher risk is transferred to an insurance company where 100% insurance kicks in. This is similar to a large deductible plan used for general liability and workers' comp programs.

This type of structure significantly reduces the cost of the insurance since the insured is bearing more of the risk. It allows the plan sponsor to be more thoughtful and strategic about the spending that occurs in the self-funded layer. Here are some proactive strategies to help contractors manage the actual spending in this layer:

### Focus on Pharmacy

This includes sourcing more drugs directly, seeking to eliminate layers of fees, and deploying apps and other tools that direct members to lowest-cost providers efficiently and conveniently. Since pharmacy tends to be the largest expense of many groups, savings here can be substantial.

### Focus on Technology & Data

There are companies that specialize in the management of claims payments and therefore have access to cost data, which they can aggregate and use to help insureds make more informed choices regarding care providers.

With this information, insureds are able to incentivize behaviors to encourage the use of cost-effective service providers. For instance, in one case, a client substantially reduced its hospital delivery costs by offering to supply two years of diapers and wipes to plan members who chose to use the low-cost (but highly rated) maternity hospital.

In that case, the cost to deliver a baby in this particular large metro area varied from $20,000 to $60,000 – so there is quite an incentive to be informed on cost. Companies that provide this service normally do so on a contingency basis for a percentage of the reduction.

### Focus on Analytics

Your broker or consultant needs to be able to assist with actuarial support and analytics to optimize the specific stop loss level for your goals and objectives. The level you choose is data-dependent and can be analytically selected. It also has to do with your company's risk tolerance. For such a program to succeed, thought and analysis needs to be applied to the decision.

Health care is rapidly changing and evolving in the U.S., so be prepared to revisit your position often on this topic over the next few years.

Other areas rife with opportunity include better fleet and equipment cost management and energy efficiency. Assess the age and efficiency of your equipment to see if it makes sense to upgrade to newer models – especially in a low interest and potentially tax favorable environment. Also, get rid of underused equipment.

Can you convert any of your auto fleet to hybrids or more fuel-efficient vehicles? What about solar panels for your office building, recycling efforts, upgraded energy controls systems? Forward-thinking companies are making these types of investments.

Also, consider outsourcing different functions. For example, IT and network maintenance, data warehousing, and even bookkeeping functions can sometimes be outsourced at lower cost and with greater flexibility.

## Investigate All the Insurance Options for Your Company

Part of any risk management strategy should include reevaluating your insurance needs on a regular basis. As your company grows and changes, more coverage options are available. You might be surprised to find some of the savings available to you, so it pays to investigate the following options:

### *Consider Larger Deductibles*

If you have a tight operation and good loss history, it may be time to look at bearing more risk yourself. Taking a larger deductible is one of the simplest risk-reduction strategies, because the larger the deductible, the smaller the premium.

### *Explore Alternative Structures*

Other structures which allow participants to "take some risk" provide for greater rewards for best practices in safety. Alternatives like group captive insurance, risk retention groups, and retrospectively rated insurance programs allow participants to share in good results when losses are managed below predicted levels.

This type of structure can drive the cost of insurance down without presenting the same risk as a large deductible. In some, participants can also earn investment returns on loss funds which are not spent on losses.

### *Think Before You Renew*

Automatic renewals let you sidestep looking at what your current insurance needs currently are vs. what they were when you originally signed the contract.

Take the time to figure out what insurance your company really needs. Don't put the process on auto pilot. Take the time to assess the changes in your business that will impact your program and make the appropriate changes.

## Conclusion

By looking at ways to keep your company healthy today, while making plans for tomorrow, a little bit of forethought can translate into more jobs, and more profits, in the future.

But don't go it alone – rely on resources from affiliated industry professionals (i.e., risk managers, accountants, attorneys) to develop risk management strategies that best fit your company's needs. ■

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