Risk Management for Today’s CFO

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Managing risk is an important role for every construction executive, but it has become even more crucial for CFOs and other financial managers. Although ownership of risk management is often difficult to determine, it is widely recognized as one of a CFO’s most important responsibilities.

The importance of risk management and its potential impact on the success or failure of a construction company is why 14% of the CCIFP exam questions cover this key knowledge domain.

Today’s CFOs must understand and mitigate the key elements of the company’s risk profile that are not industry-specific, such as monitoring legal issues involving the company and industry, establishing and maintaining reliable internal controls, ensuring compliance with legal and regulatory requirements, ensuring adequate recordkeeping, and more.

A construction CFO has expanded risk management responsibilities and can no longer simply rely on forecasts and projections. Risk is a certainty, but not all risk is bad. Performing well on a project for a first-time customer can lead to more work. Here are some suggested steps to manage your company’s risk:

1) **Identify risk** – Understand your company’s own unique risks.

2) **Avoid/Limit risk** – Establish go/no-go criteria, manage growth, look to keep projects within your company’s area of expertise, establish and enforce adequate safety programs, ensure proper maintenance of equipment, and more.

3) **Transfer risk** – Maintain proper insurance, appropriate subcontractor agreements, etc.

4) **Plan for risk** – Create plans for identified risks.

5) **Communicate a plan** – Each team member should understand the part they play and regularly communicate risk updates.

Risk comes from both internal and external forces, and some of it may be beyond your control. However, it is critical to identify and establish a management plan for each of them. Identify and understand the types of risk for your company. For example:

- **Financial risks** include unmanaged growth, price increases, inaccurate estimates, lack of a line of credit, lack of a contingency plan, etc.

- **Contractual risks** include not understanding contract penalties and other performance obligations.

- **Safety risks** include the lack of a safety plan, the lack of enforced safety guidelines, inadequate equipment, the lack of maintained equipment, and more.

- **Project risks** include improper project management and inaccurate estimates or calculation of time and required resources.

- **Communication risks** include any misunderstanding on the deliverables or timeline and not communicating changes.

- **Weather risks** since they are uncontrollable.

- **Performance risks** include the pressure to match price or delivery terms, overextend your entity’s resources, and identify the subcontractors’ risks of failing to complete.

CFOs should have a complete understanding of the bottom line, allowing them to assess where risks can be taken and where they should be minimized. A full understanding of the types of risks your company faces can help ensure that your project is profitable, on-time, and on-budget.