



# The Risk Management Plan: A Fundamental for Business Success

A Risk Management Policy and Plan for your firm is an essential element of loss prevention and a key ingredient of financial success. A Risk Management Plan integrated into your firm's culture and embraced by its leadership will have a significant positive impact on business performance and firm longevity. At Berkley Design Professional, we view risk management as an integral component of practice, project and financial management.

**“Risk Management +  
Practice Management +  
Project Management =  
Firm Success ”**

## Legal and Financial Risk

Design firms face risk factors in two major categories: legal and financial. Firms with diligent contract review procedures and policies that negotiate and execute properly written agreements can mitigate legal risk. However, managing financial risk—the ability to implement projects and achieve a reasonable profit—is a challenge for every firm on every project. Reducing both financial and legal risk requires strong project management and practice management.

## Risk Management Philosophy

Establish a firm philosophy that acknowledges the importance of the risk/reward proposition and promotes a solid understanding of the design professional Standard of Care that can be effectively communicated to the client. Here are some core concepts:

- Construction projects are complex investments, each with its own set of risks and rewards
- Owners/clients or end users are the primary beneficiaries of such investments
- Owners/clients will always have a greater reward than your firm
- Design firms operate under a professional Standard of Care for a relatively small percentage of the project cost

Design professionals are geared toward solving problems and keeping their clients happy and tend to worry about business issues later. However, your firm leaders and project managers must keep those business and risk management issues at the forefront, with an understanding that your firm is providing professional services under tight profit margins —not delivering perfection—and that the client's risk is proportionate to its

share of the rewards or benefits. As a trusted advisor to your clients, you must do your job properly and use your expertise to help protect them from risk. But you can't absorb change orders or issues that arise due to unforeseen conditions—that's beyond your Standard of Care.

By keeping an eye on the business and risk issues, and keeping your client informed, you'll ultimately please your client and protect your firm at the same time.



## Risk Management Team Approach

We recommend the development of supportive project and practice management policies appropriately scaled for the character and size of your firm.

For larger firms, a Risk Management Team can be an effective way to determine and implement policy, share knowledge across the firm's practice groups, and advocate for proper risk management principles and procedures. Representatives from each market sector and service line collaborate to provide leadership harmoniously with senior management to develop a plan and policy that are unique and best for the firm.

For smaller firms, these key roles may reside in one or only a few individuals internally but can also be fulfilled by the services of their insurance broker, carrier and outside legal counsel.

In any case, the engagement and leadership of a committed group of individuals to the key issues and principles of risk and practice management provides untold synergies to enable firm success.



## Risk Management Plan Components

1. Strategic Planning
2. Risk Analysis of Client, Project, and Team
3. Contract Review and Negotiation
4. Contract Education for the Design Team
5. Communication and Documentation
6. Practice Management, Project Delivery, and Quality Management
7. Staff Training and Development

## 1. Strategic Planning

Develop and implement a strategic plan to shape your firm's culture, position in the marketplace, and foundation of sound business practices:

- Create your firm's identity
- Define its purpose and mission
- Differentiate from the competition
- Establish value in the marketplace

### Benefits of Implementing a Strategic Plan:

Creating value through specialized knowledge advances your firm's skills and reputation. Your reputation for excellence and value-added offerings enables a higher win rate. And becoming a trusted advisor to your clients leads to better fees and more favorable contract terms—all of which impacts your firm's opportunities for profit and exposure to risk.

## 2. Risk Analysis of Client, Project, and Team

Establish a Go/No-Go process, including a form/template and consistent internal review in these areas:

- **Client Selection:** reputation, experience in project type, financial solvency, litigation history, well defined and realistic goals and objectives
  - **Project Factors:** scope, size, budget, schedule, funding, delivery method, quality/performance goals
  - **Firm and Design Team Qualifications:** expertise to win and succeed, key staff availability
  - **Subconsultants and Associate Design Firms:** reinforce team qualifications, reputation, established working relationship (or significant investment in understanding how each firm works), process alignment (e.g., BIM), insurance requirements
  - **Financial Analysis:** analyze work effort, and negotiate fee to meet reasonable profit target
3. **Quality and Strategic Goal Alignment:** current and future benefit of the project to your firm

## 3. Contract Review and Negotiation

Establish a process to consistently review contracts. This means identifying who will review contracts and how they will do so. For proposals and contracts, it's critical to have more than one person look at them because they define the scope of your services, your fees, and the specific terms and conditions of the contract under which your firm will operate. Be sure to address:

- **Internal Process:** risk manager, principal, project manager, risk management team representative
- **External Process:** broker, insurance carrier, outside counsel
- **Negotiation Preparation:** interim agreement, contract review process, checklist of deal makers and deal breakers, risk/reward analysis
- **Client Education:** alignment of goals, expectations, scope, and fees between client and design firm, Standard of Care, construction and design contingencies, client responsibilities
- **Subconsultant Agreements:** alignment with prime, pass-through services/responsibilities, proper levels of insurance for discipline/scope



## 4. Contract Education for the Design Team

Close this common communication gap by ensuring the design team fully understands:

- Scope of services, schedule, deliverables, budget
- Responsibilities of design team, consultants, owner, other parties
- Change and issue awareness, identification, communication, response

## 5. Communication and Documentation

A thorough and well-thought-out communication plan is critical to managing client expectations—and must be customized for each project/client.

Documentation is the narrative of the project process that forms the legal project record and is critical in managing the project and your client's expectations.



- **Communication Plan:** align client and design team requirements, understand of client decision-making process, address schedule of meetings, presentations, and approvals
- **Key Meetings and Presentations:** document options considered, recommendations made, decisions reached, follow-up required; publish minutes and distribute with an aging statement
- **Change Management Process:** identification, notification, authorization, documentation
- **Document Management:** consistent file format, record retention policy
- **CA Phase Documentation:** maintain diligence, pay attention to tracked documents, monitor RFIs and change orders
- **Dispute Resolution:** identify issues/warning signs, have process to respond, engage senior-level expertise in solutions; report pre-claim circumstances



## 6. Practice Management, Project Delivery, and Quality Management

Here's a list of key activities and tools that enable successful project execution:

- **Project Planning:** alignment of scope, schedule, deliverables, staffing, financial goals
- **Project Delivery Process:** baseline of key activities for your firm throughout all project phases to establish consistency
- **Tools and Templates:** standards, guidelines, procedures, protocols, checklists
- **Quality Management Plan:** continuous, phase milestones
- **BIM and Digital Practice:** digital exchange agreements, BIM Execution Plan
- **Sustainability, Building Performance Plan:** understand client's (owner's) project requirements
- **IT and Design Technology:** systems and support to enable staff performance; sufficient level of investment; software management; cyber security and data backup-recovery
- **Accountability and Responsibility:** clearly define roles, responsibilities, and expectations of internal team, subconsultants, contractors, and other parties in project delivery
- **Financial Performance:** regularly share key data, including financial goals and project progress updates

## 7. Staff Training and Development

Your staff is a key asset, and your investment in training and knowledge transfer can lead to long-term retention of your employees. The retention of qualified staff is going to be your strongest means to achieving your quality management goals.



- Develop staff and make investments for long term retention
- Cultivate and appreciate design, technical, project management, and administrative resources
- Recognize and capitalize on generational differences with two-way mentoring
- Provide training in leadership, communication, team management skills
- Offer opportunities for growth
- Create a culture that values quality and risk management

Once the seven areas of the Risk Management Plan become ingrained in the culture of your firm and integrated with project management tools and techniques, the results will be tangible.

# About Berkley Design Professional

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