



# AIA Best Practices: Proactive measures for managing risk

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By Victor Insurance Managers and CNA

## Summary

The best way to handle risk management is to identify potential risks and plan for them ahead of time. Meaningful risk assessments help firms to manage risk appropriately.

## Act, don't just react

One common misperception is that “risk management” applies to problems once they have surfaced. Another is that the architect is a victim unfairly targeted by unscrupulous claimants or plaintiffs, and that the best the architect can do is mitigate the damage.

Architects who successfully practice risk management know that they have considerable power to control the risk environment in which they practice. Exercising that power requires initiative and conscious action at the beginning and throughout every project. Managing risk prudently allows a firm to pursue its business and design objectives strategically, fully aware of the risks and with a plan for managing those risks, rather than avoiding potentially lucrative and rewarding opportunities due to unfounded apprehensions.

## Learn to say “no”

It will come as no surprise that the business world has significantly changed over the past decade. We've One way to manage risk is to avoid it in the first place. Strategically select the projects you prefer, based on your interest and competency. Remember that you always have the option to respectfully decline a project. Too many architects find themselves in risky situations that were foreseeable, working on projects in which they have only a lukewarm interest and for which they have insufficient resources because they irrationally feared offending the prospective client.

## Assess the risks

Every design project has “risk parameters” that can be identified and analyzed as systematically as design parameters in a programming process. Most architects, even those with only a few years of experience, have the knowledge and skill to conduct a meaningful risk assessment. The factors that a firm may wish to consider in a risk assessment may include, but are not necessarily limited to, the following:

- The general nature of the project—sufficiency of the scope of work; the site, budget, and schedule; community sensitivity or opposition; unusual regulatory requirements; or a history of a high incidence of litigation.
- The firm's capabilities and experience—the appropriate design expertise and the time to complete the project well.
- Specific client attributes—attitude, funding, sophistication, and understanding of the nature of professional services.
- Construction industry factors— influences on project delivery such as the type of contractor selection process, inclusion of other parties in the design and construction process, and the state of the local construction economy
- Constraints on time and cost—compensation for design services, the project budget, and schedule.
- Forces external to design and construction—the general economic climate; the attitude of the community and government to new projects; the overall political situation; and existing or anticipated laws, rules, and regulations.

Once a firm has identified as many project risk factors as possible, it must assess whether it can assume the risks and still provide professional services profitably. The assessment must include an analysis of the possibility of loss—of something bad happening—but also of the probability that one of the risk factors may compromise the quality of services provided by the firm to other clients.

## Assessing risk: a team effort

The risk assessment is best conducted by all the members of the firm who will be involved with the project, including all staff who will interact with the client, consultants, and construction contractors (including accounting, administrative, and legal team members).

While many firms may have an “expert” staff member who is primarily responsible for risk management, that person should coordinate the risk assessment and not conduct it individually. It is too easy for a single individual to give certain risks insufficient weight or to be unaware of potential risks that may be apparent to others with different points of view.

With a realistic understanding of the risks that could undermine the quality of a firm's services and its long-term financial health, the firm must assess its ability to manage the risks while fulfilling its professional duties and anticipated contractual obligations, based in part on the degree of power and authority the client allocates to the firm.

Effective risk assessment is both objective and subjective. A firm may wish to consider the following questions for every project:

- Can the firm remain in charge of its own future with respect to this particular project?
- Does the firm have the resources, skill, ability, and power to successfully complete the project?
- What is the gut feeling of the staff about the project?

## Is the risk manageable?

After a firm has identified risk factors and judged their impact, it must explore its risk management options. The basic options should be well understood by firm management and often should be discussed, and perhaps negotiated, with the client. The following five categories of conceptual risk management may apply to most projects, either individually or in combination:

- Avoid the risk completely; decline the project.
- Accept some or all of the risk, with compensation for the exposure.
- Transfer some or all of the risk to a third party, such as an insurer.
- Allocate the risk through contract provisions, such as indemnity clauses or explicit limitations of liability.
- Mitigate the risk through effective practice and project management techniques.

Adapting each technique to individual projects is a skill acquired through education and experience, with the assistance of specialists such as attorneys, accountants, and insurance advisors.

## About the contributor

Victor Insurance Managers and CNA work with the AIA Trust to offer AIA members quality risk management coverage through the AIA Trust's Professional Liability Insurance Program, Business Owners Plan, and Cyber Liability Insurance Program to address the challenges that architects face today and in the future. Detailed information about both these programs may be found on the AIA Trust website.

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