Owning a roofing contracting business is a serious undertaking. The idea of systematically deciphering your company’s risk profile may seem too lofty or “only for the big guys” to consider in a thoughtful way. However, with the stakes so high, not understanding your organization’s risk profile, regardless of its size, can be costly.

**What is a risk profile?**

Roofing is arguably one of the most dangerous occupations in the U.S. Operating a business, any business, has its own risks, such as contracts, managing a workforce, etc. When you started your roofing contracting company, you may only have started with a truck and supplies from a roofing supplier—the risk of failure likely only affecting you and your family. However, once you have the financial livelihood of employees and their families tied to your success, failure under these circumstances can come at a sobering price.

A risk profile is an analysis of all risk an organization faces. It represents the risks in a prioritized manner. The effect of it is to objectively understand how much risk an organization is taking on and whether it should change direction so risk is minimized or, because it’s so well-controlled, consider assuming more risk.

The reality of developing a risk profile for any roofing company is extensive and can be overwhelming to even the most diligent contractor. However, taking incremental steps is the key.

**Enterprise risk management**

The origins of risk management first targeted issues such as efficiency, safety and quality efforts. Over time, business leaders realized a need to manage external risks, such as financial matters, reputational risk and legal risk, to name a few. As a result, the term enterprise risk management was born. An enterprise exists for its internal stakeholders, as well as its external ones.

Enterprise risk management is premised on the idea that for organizations to be successful, a strategic framework must be implemented and supported by processes that effectively identify, assess and manage risk. This framework is the result of a strategic planning effort that has at its core the establishment of a company’s vision statement (company purpose) and what the owner wants the company to be (where it is headed).

Having a vision is integral to successful decision-making. It guides a roofing company owner, and those with authority to make choices for him or her, to properly assess priorities and direct activities. Once a company vision is established, the challenge turns into adding value, maximizing profit and managing risk.

How does a company accomplish this? The answer lies in having a deliberate plan using the following five-step protocol to build a framework for continuous risk identification and management.

**Step one: Risk identification**

First, you must analyze your company’s risk potential. The idea is to uncover all areas of risk, including some detail but avoiding the temptation to drill down into each area. What’s important during this step is to identify all the areas where risk occurs. The end goal is a risk list categorized by topics such as financial exposures, accounts receivables, accounts payables, credit, investments and human resources (hiring, onboarding, termination, compensation, human resources laws, etc.).

To be successful, the process must be thorough enough to capture the breadth of exposures because unidentified risk is, by default, unwittingly absorbed by the organization, and this might lead to severe outcomes for the company.

**Step two: Risk assessment**

This step can be tedious as each identified area in step one is broken down further to assess whether each area fits within the organization’s vision. If an area passes the vision test, it is rated and prioritized. This is a key step because it directs you to where you are going to focus your efforts.

Part of the evaluation process is a weighting exercise aimed at risk severity (how costly it would be if it were to occur) and frequency (how often it likely is to occur). A risk matrix (see figure) showing loss severity and frequency can be used to plot the risks. As we all know, time and money are scarce resources and must be leveraged to get at the risks that pose the biggest threats.
Step three: Risk treatment
Once risks are prioritized, they are matched with ways to treat or address them, again using the company vision to sift out anything not aligned. For this step, the risk matrix can help greatly.

Items in the high-severity and high-frequency box typically are completely avoided going forward. These risks need a lot of attention to ensure they’re not going to occur. However, they are not always easy to avoid because the nature of roofing work is what creates the frequency issue.

For example, let’s say your company has been offering customer financing and it’s proven unsuccessful, so you decide to no longer offer this option and turn away some business. However, if part of your company’s vision includes making new roof systems available to those in need, transferring that risk to a financial institution partner should be pursued to avoid a negative effect on your company’s financial health and maintain your community service goal.

Items in the low-severity and high-frequency box are ones you retain and implement loss-prevention measures. Items in the high-severity and low-frequency box can be treated with insurance policies. And finally, those in the low-severity and low-frequency box can be addressed in-house with policy, procedures or training changes and addressed as they occur.

Step four: Risk implementation
In this step, treatment methods determined in step three are applied. Thought needs to be given to how and when changes are made, ensuring alignment with the vision.

Step five: Risk review
In this step, implementation is reviewed vigorously. Outcomes can include treatment reassessment, identification of new risks or resolution, such as when the risk has been properly managed. Nevertheless, the process is continuous so even a resolved risk continues to be monitored.

It is tempting to immediately fix a risk when it is identified in step one. However, this is not necessarily in your organization’s best interest because jumping from identification to solution often is costly, inefficient and distracting to a company’s overall vision and profit goals. If you solve a particular problem identified in step one, you may not have the perspective to see how doing so can create other problems or waste time or resources that could have been invested in fixing something having a greater effect on the bottom line.

Enterprise risk management implementation increases the professional standing of a business because it aligns an organization with its vision. It provides owners with a comprehensive understanding of their risk profiles and, importantly, the ability to articulate, manage and leverage risk to enhance a business’s image to internal stakeholders (such as employees) and external stakeholders (such as bankers, customers and suppliers).

Roofing contractors who implement enterprise risk management programs set their businesses up to leverage risks with much more certainty.

An opportunity
Because of increased member interest in enterprise risk management, NRCA formed a task force to explore how the association can help members benefit from an enterprise risk management program in their companies. During the past couple of years, task force members have worked to produce a half-day Enterprise Risk Management seminar.

Participants in the program learn how to identify a company’s risk, develop a company risk profile, implement the steps to manage the risk profile and, most important, how to make decisions that will align with a company’s entire enterprise. The program includes a panel of roofing contractors who have adopted enterprise risk management strategies into their businesses to share their experiences.

Information about an upcoming Enterprise Risk Management workshop scheduled for Feb. 28 during the 2017 International Roofing Expo® (IRE) and NRCA’s 130th Annual Convention in Las Vegas is available on IRE’s website, theroofingexpo.com/Attendee/Schedule/SessionDetails/39220.

Great potential
By implementing an effective enterprise risk management program in your business, you are creating a future where what might have turned into a “horror story” actually can pose an opportunity for your business. It’s even more possible to envision your organization with a risk appetite that grows because of its keen risk management implementation where productivity, investments and reputation are maximized and the negative effects of an incident are minimized.

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