Using risk management techniques to manage company liability

Guest editorial
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Risk management is a concept business owners typically spend a lot of time thinking about — even if they don't know it in these terms. How can I protect my company's assets against lawsuits? How can I provide a safe environment for my customers and employees? Am I protected in the event my product fails? What happens if one of my OEM's products fails?

These concerns can all be addressed through the risk management process, which involves five steps.

Step one: Identify and analyze your loss exposure. Meet with your management staff and identify areas that have the most risk. This may be in your own facility if you have a shop area where there is inherent risk to the public or employees. Your own facility also could be the issue if the business commonly has the general public in a lobby area or on a sales lot if you're a dealer. As an upfitter or a manufacturer of component parts, you may find the most likely liability risk is in your product. Each individual business has its own unique loss exposures. Identifying them is the first step in managing them.

Step two: Review the risk management techniques available to you. There are several techniques from which to choose when going through this process.

- Risk avoidance: This technique is as simple as not engaging in the risky behavior at all or changing your operations to avoid the risky part of the operation. This option will not only help eliminate risk, but it limits potential as well. It's also frequently impractical.
- Risk reduction: This technique involves typical loss control measures, such as quality tests and inspections, ongoing and thorough personnel training, lock-out/tag-out policies, proper certifications, etc.
- Risk transfer: This technique has two common forms — the first of which is insurance. You are essentially transferring your risk to an insurance carrier in exchange for premiums paid. The second is through contractual language with OEMs and/or customers. In this scenario, you are transferring your risk to the other party by way of hold-harmless agreements, indemnification agreements and the like.
- Risk retention: This is where you/your company basically absorbs the risk altogether. This technique is used when the risks are either unlikely, or the costs of mitigating or transferring the risks are prohibitive.

Step three: Select the best risk management technique for your exposure. This is a process of weighing your risk versus reward. You can avoid risk altogether, but at what cost? Is the risk large enough to invest in risk-reduction testing and training? If you transfer the risk to your customers, will they go elsewhere that has more generous or ambiguous contractual language? These are all things to consider when identifying the proper technique for your business, and often the answers fall somewhere in the middle. By implementing a well-balanced program, you can protect your company's assets and still have a viable, thriving business.

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Step four: Implement the technique you selected. Once you have identified the most appropriate course of action, follow through with implementation. Your management and key employees should be familiar with your choice and execute a plan of effective communication to all employees. A plan without commitment is destined to fail.

Step five: Monitor the success of the program. Monitoring the plan is essential in gathering data on the effectiveness of your chosen technique. If you find that the technique you've chosen is not producing the needed result, perhaps it's time to revisit the options and reevaluate.

Businesses that have interested, engaged ownership and management are typically the ones that survive even the hardest of times. Managing your own company's risk is one way of staying involved and in control.

Many insurance companies and insurance agencies have on-staff or contracted risk managers who can help with this important task. Inquire with your insurance professional about their services in this area.

JD Fulwiler & Co. Insurance developed the Work Truck Total Protect program to provide the industry with underwriting, risk assessment and loss prevention services. JD Fulwiler will shop among many top insurance carriers with which it does business to find a coverage solution that best meets your needs. Learn more at ntea.com/partnerships.