



UNIVERSITY OF
BIRMINGHAM

COVID - 19 Calls for Practicing Enterprise Risk Management in Construction Companies

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4. Conclusion





1. Introduction (Cont.)

COVID -
19

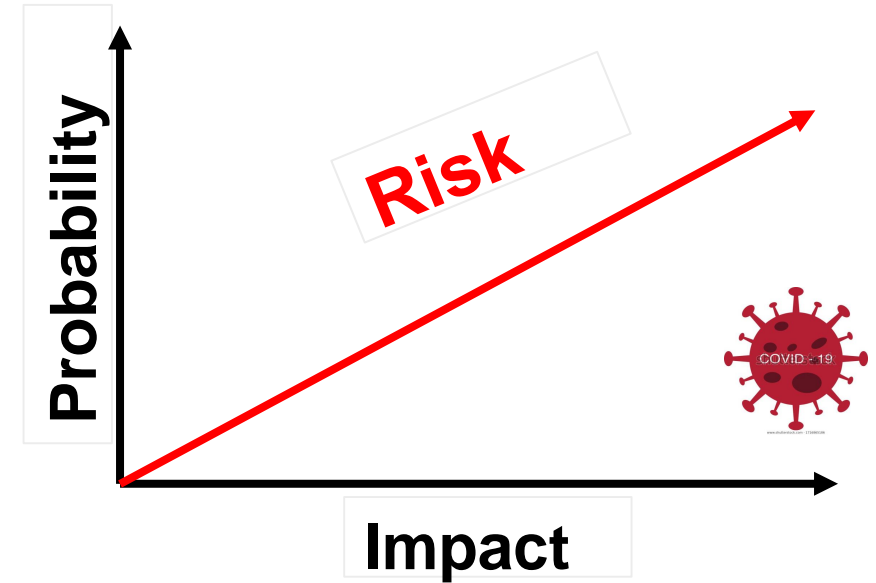
- ❑ an unanticipated event of the globe with a massive social and economic impact.
- ❑ the biggest danger since the 2008/09 global financial crisis
- ❑ the first economic recession to have been triggered solely by a pandemic during the past 150 years.
- ❑ Construction industry, which was already reeling with multiple challenges, is one of the hardest affected economic sectors by the pandemic



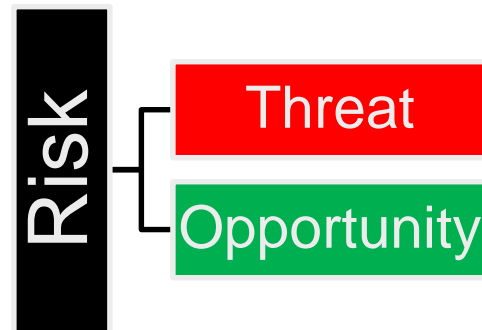


1. Introduction (Cont.)

- **Risk** – the probability of occurrence and the its impact



Is a risk always distractive?



		Threat				
		M	M	H	H	H
Probability	L	M	M	H	H	H
	L	L	M	M	H	H
	L	L	L	M	M	H
	L	L	L	L	M	M
	L	L	L	L	L	M
		Impact				





1. Introduction (Cont.)

- ❑ Practicing **Enterprise Risk Management (ERM)** may play a key role in responding risks
- ❑ However, **ERM is less understood and practiced** in the construction industry

ERM is “the culture, capabilities, and practices, integrated with strategy setting and performance that organizations rely on to manage risk in creating, preserving and realizing value.”

(COSO 2017 ERM Framework)





1. Introduction (Cont.)

In the middle of difficulty lies opportunity'

(Albert Einstein)

- ❑ While COVID – 19 is a catastrophic event, it could be viewed as an opportunity too for construction companies to
 - examine their capability and readiness in handling such unprecedented risks and
 - develop an appropriate risk management system
- ❑ Financial institutes, benefited from practicing ERM subsequent to the global economic crisis in 2008/09
- ❑ Unanticipated global incidences dictate tomorrow's firms are totally different from the past and today.





1. Introduction (Cont.)

Objective of this presentation:

- ❑ to discuss the need for adopting ERM in construction firms to effectively respond for the diverse and complex risks of the industry.

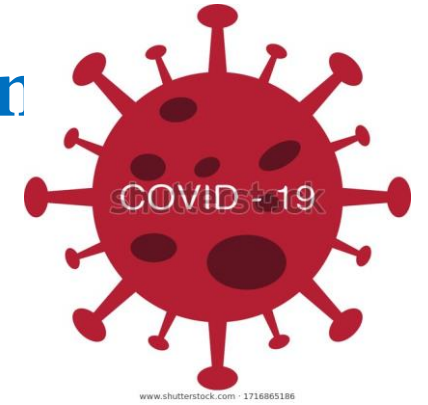
Significance of the study:

- ❑ Enhance the awareness of the leadership on the benefit of practicing integrated and holistic ERM and
- ❑ Provoke construction companies to respond to a growing call for applying ERM across the industries comprise construction.





2. The Impact of COVID - 19 on Construction Companies



Global Economic Impact:

Global economy - would shrink by 5.2 percent in 2020 from the baseline forecast

The deepest recession since WW II

3 times as deep as the 2009 global recession

African GDP would fall by 1.4 point from 3.2

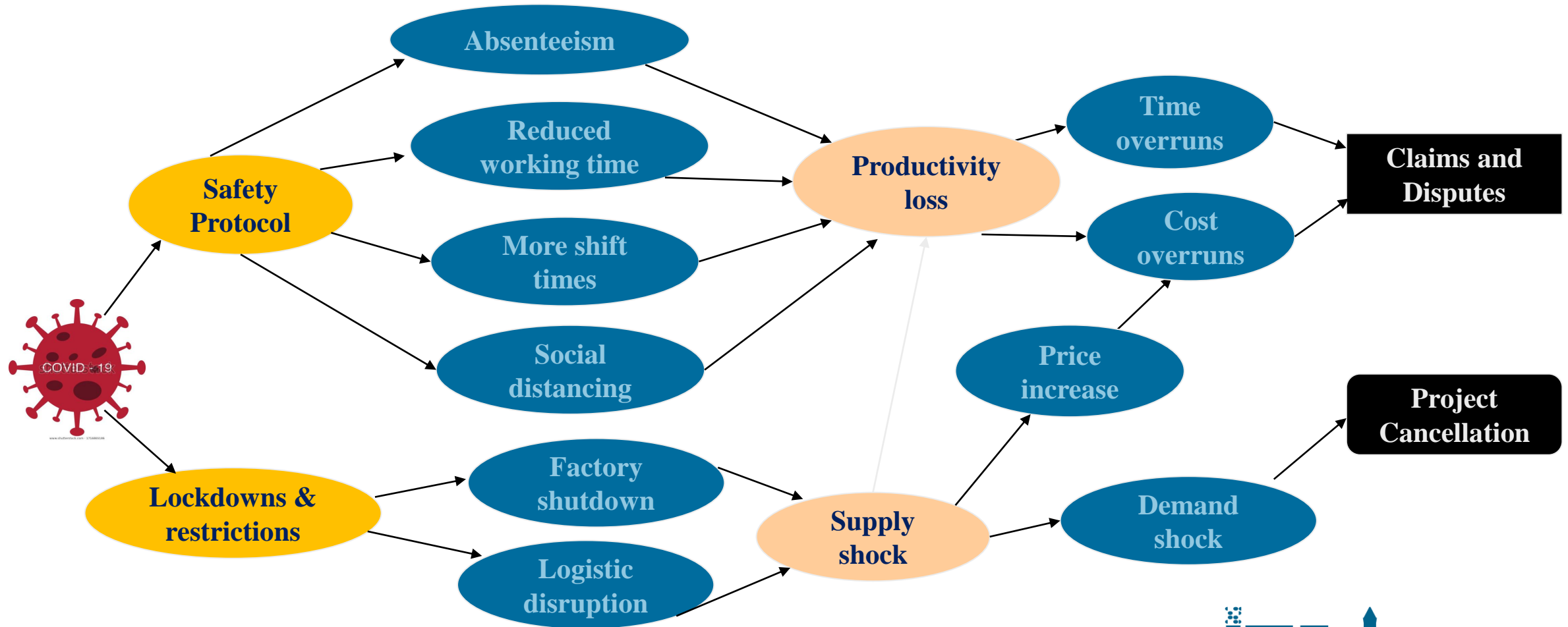
GDP of LICs would fall to 1.6 from 5.2 in 2019

Ethiopian GDP - 3.2% from the 9% in 2019 (the lowest in the last 17 yrs.)





2. The Impact of COVID - 19 on Construction Companies





Impact on Health and Safety

Construction and Labor

30% to 50% of total cost of projects

- ❑ Construction projects are labor intensive
- ❑ Hence, **labor productivity** is more important
- ❑ Need for the **efficient and effective utilization** the work force at all times

Impact of COVID - 19

- ❑ Absenteeism due to infection
- ❑ Extended leave
- ❑ Social distancing
- ❑ Several shifts





Supply Shock

Supply and Construction

Effective and Efficient

Impact of COVID - 19

Shut down of factories

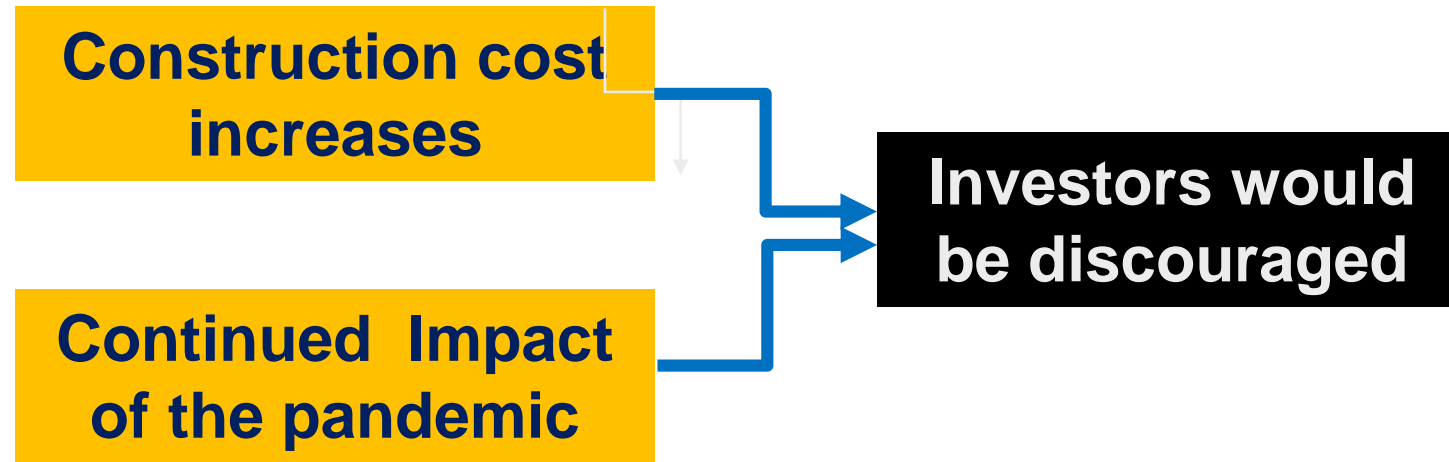
Disruption of Logistic

Supply disruption





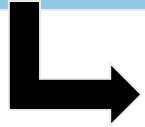
Project Demand Shock





Delay of Project & Contractual Implications

COVID – 19 is unanticipated



Project disruption



No contractual remedy in contracts



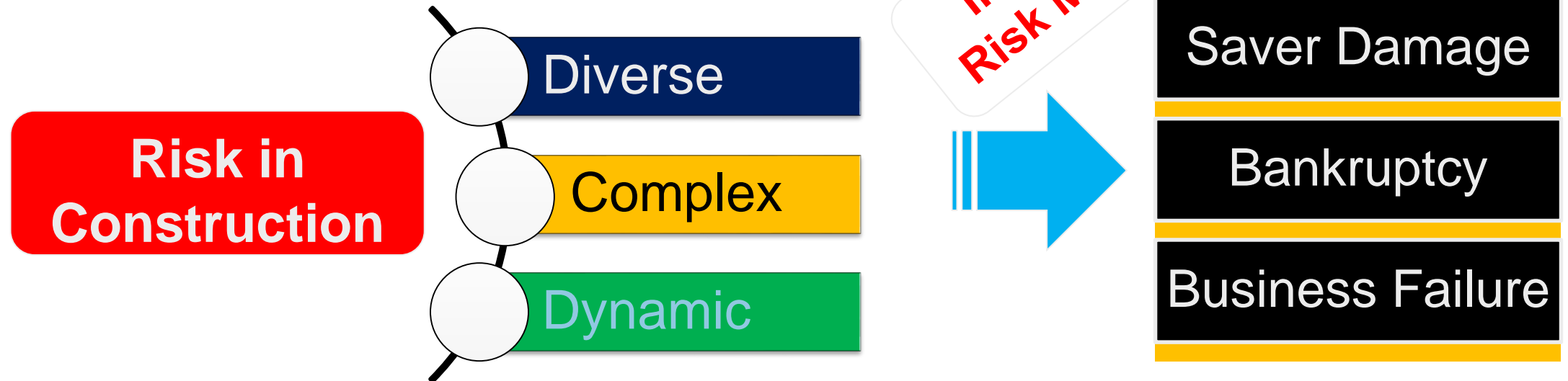
Contractual claims and disputes





3. Why ERM is important?

- ❑ Construction is a risky business
- ❑ Nature of risks in the construction industry
- ❑ Ineffective risk management (RM) may result in sever damage in companies





Benefits ERM

Enterprise Risk Management (ERM)





Status of ERM Implementation in CI

- ❑ ERM appears to be receiving much attention over the recent years from a range of businesses and industries
- ❑ Because the isolated Traditional Risk Management (TRM) approach is not effective to handle risks.
- ❑ However, the implementation of ERM in the construction industry, in particular, is **insufficient** and/or **informal**
- ❑ This result in poor firm performance.





Status of ERM Implementation in CI

Traditional Risk Management (TRM)	Enterprise Risk Management (ERM)
<ul style="list-style-type: none">• is segmented and conducted in separate business units or departments (i.e. silos) within a company	<ul style="list-style-type: none">• Treats each risk as part of the entire risk portfolio of an enterprise rather than as a discrete risk
<ul style="list-style-type: none">• Fails to consider the interactions between risks	<ul style="list-style-type: none">• concerns the risk interactions and how risk response measures can deal with multiple risks across multiple business areas
<ul style="list-style-type: none">• Results in inefficient coordination between silos	<ul style="list-style-type: none">• Attempts to consolidate a risk management process across all the levels within the organization.• It concerns on the degree of coordination and consolidation with which the enterprise manages risks
<ul style="list-style-type: none">• Results in duplication of RM expenditure	<ul style="list-style-type: none">• viewed as a top-down approach to risk management
<ul style="list-style-type: none">• May overlook most significant risks	





Driving Factors for ERM Implementation

- ❑ legal and regulatory compliance requirement,
- ❑ reduce earnings volatility,
- ❑ reduce cost and losses,
- ❑ improve decision making,
- ❑ increase profitability and earnings
- ❑ enhance firm value
- ❑ Improve resource deployment
- ❑ competitive advantages.





Barriers for ERM Implementation

- Lack of awareness on the values or benefits of ERM
- Lack of internal knowledge, skills and expertise
- Lack of quality data and limited access to data
- Insufficient resources
- Lack of common risk language on ERM
- Lack of qualified personnel to implement ERM
- Inadequate training on ERM
- Lack of support from top management
- Management priorities, and reluctance to discuss sensitive information
- Human/ organizational resistance
- Difficulties in quantifying the risks
- Unavailability of risk management consultants





Barriers for ERM Implementation

- ❑ However, there is no free lunch in ERM; it requires,
 - time,
 - commitment and
 - resource
- ❑ Substantial transformation is demanded in the industry in adopting ERM.
- ❑ Regularity and compliance requirements might also provoke construction firms to fully apply integrated risk management at the organization level.





4. Conclusion

- ❑ While the nature of the industry itself demands construction firms to practice ERM, the occurrence of COVID-19 pandemic raised the needs for practicing it in an immediate effect.
- ❑ This study recommends construction firms to introduce and implement integrated and holistic ERM for its enormous benefits, including enhancing firm values.
- ❑ The impact of the recent surprised unprecedented COVID-19 pandemic further suggests construction firms to immediately practice ERM.





Thank you very much for your patience!!!

