

A Primer in Risk Management for the Safety Professional

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The World Book Dictionary provides several definitions for the word “primer”. One definition states that it is a “first book” i.e. a Primer on Arithmetic. Another definition says it is a “first coat of paint” (1). This article will explore the risk management process beyond the premise of a first book but within the context of a first coat of paint. This primer will help to serve as a foundation in the continuing education of the safety professional.

Anyone who has painted a wall knows that the primer coat serves as a base or foundation for the second or finish coat to the painted wall. This article will attempt to brush the risk management paint adequately to enhance the future “coats” to be applied by the safety professional.

Business and the Safety Professional

The safety professional in recent years has often been asked to take on a variety of job tasks and functions to control the cost of doing business within many organizations. In addition to safety and health the areas of security has become increasingly more important since the events of September 11, 2001. Business strategies may include acquisitions or mergers that require the safety professional to conduct due diligence that could impact the business portfolio of an organization. A quality initiative could impact the safety efforts by incorporating safety into the quality process. This can be done by developing metrics for safety similar to the standards used in quality control. An example may include a reduction in incidents through identification of hazards and developing corrective actions for minimizing these hazards. The safety professional must be aware of these needs and become a practice leader within his/her business not merely a safety and health technician. Safety professionals can no longer wait for direction they must become problem solvers and develop solutions to control costs and enhance profitability. To successfully accomplish these tasks may include changes in the organizational culture.

In his book titled “Organizational Culture and Leadership”, Edgar H. Schein defines culture as “a pattern of basic assumptions- invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration- that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”. (2). The safety professional must become a team player in this culture development as it relates to the management of risk.

Traditional Risk Management

Risk management has been defined as a process that uses physical and human resources to accomplish certain objectives concerning most pure loss exposures. There are both post loss and pre-loss objectives that must be considered. Post-loss objectives include: (1) survival, (2) continuity of operations, (3) earnings stability, (4) continued growth, and (5) good citizenship or social responsibility. Pre-loss objectives include: (1) economy, (2) reduction in anxiety, (3) meeting externally imposed obligations, and (4) good citizenship and social responsibility. The risk management process consists of four steps:

1. Identification and analyzing loss exposures.
2. Selecting the technique or combination of techniques to be used to handle each exposure.
3. Implementing the techniques chosen.
4. Monitoring the decisions made and implementing changes where appropriate. (Williams, et al 18).

The above model has been the foundation of risk management in many organizations for many years. Small to midsize companies have purchased insurance to meet the various economic/financial needs and may or may not incorporate an environmental safety and health program to minimize the possibility of loss. Success in minimizing loss problems is largely a result of dedicated human capital and enlightened management. As noted the safety professional must be a leader in a successful EH&S process as it relates to risk management. In order to accomplish this goal of minimizing losses a business risk management is recommended.

A Best Practice Approach

In “Best Practices, Building Your Business with Customer-Focused Solutions” Heilber, Kelly and Kettelman (3) note the following three common practices in the companies they researched for the text:

- Constantly Search for a Better Way
- Develop Serious, Positive, Ongoing Relationships with Key Stakeholders to the Business.
- Adopt a Strong “Process View” of your Business.

The safety professional should incorporate each of these concepts into the day to day activity of controlling losses and maximizing profits for her/his company. The search for a better way must include an expanded business risk management approach, being part of the risk management team and understanding the business as a dynamic entity with opportunities for continual improvement.

An Enhanced Model for a Business Risk Management Process

Business risks are numerous and consist of market risk, credit risk and operational risks. For this discussion the operational risk will be the primary focus. It is this aspect of risk that the safety professional has the most influence. The business risk management process will be discussed in the following six steps:

1. Establishing a Business Risk Management Process with specific goals and objectives.
2. Assessment, Identification and Analysis of Business Risk including sources used to measure and assess the risks.

3. Development of business risk management strategies.
4. Designing and Implementing risk management capabilities.
5. Monitoring risk management performance.
6. Continual improvement of the risk management capabilities.

Each step will be looked at in a case study setting. In view of the variety of potential readers of this article, a business operation will be used that virtually all readers are familiar, a Shopping Center. On the surface, a shopping center may be thought to be rather simple in the exposures (those aspects of the business that may result in a loss) and loss (an occurrence for which a business may or may not be insured) expectancy. These sometimes small cities can have all or most of the business concerns that any manufacturing, construction, institutional or similar business may encounter.

Typical Exposures in a Shopping Center

A suburban or urban center will typically have all of or most of the following:

- One or more structures of various construction features with some type of fire protection.
- Parking lots or garages.
- Utility and related equipment.
- Center or Mall Management, maintenance and custodial personnel.
- Numerous store fronts including food operations.
- Security personnel.
- Environmental concerns.

Each of these exposures to loss will be discussed within the framework of a business risk management process.

Step 1- Establishing a Business Risk Management Process

This step may be part of or separated from the company's business plan. It should include specific goals and objectives for the risk management process in terms of a common language that all employees can understand. The goals should be communicated on a regular basis throughout the organization. Mission statements continue to be used for this purpose in some companies. If the goal of the risk management process is value driven instead of priority driven it will get done by empowered management and other personnel. If it is perceived as a priority it may or may not receive the focus to accomplish the goal.

From the safety professional point of view, goals are often focused on incident or injury prevention. These are appropriate if they can be measured and impacted by risk management or risk control techniques which will be discussed later in this article. Goals and objectives like the following are too general to accomplish meaningful results:

GOAL – To reduce injuries to customers and reduce damage to the shopping center and thereby to minimize the impact on the company's operations.

Objectives

- To reduce the property losses and to reduce the cost of insurance as it relates to Common Area Maintenance.
- To provide a safe operating environment to minimize injuries.
- Train the entire staff in risk management principles and risk control methods.

While these may be a good start, the question of how to measure the results is somewhat of a challenge. Developing a specific target for improvement such as a 40% reduction in employee injuries and a means or method to accomplish that objective, i.e. train employees in the safe job procedures for material handling and monitor the activities weekly is a more meaningful metric. These goals and objectives with actionable items for improvement must be championed by the Risk Management Team with the safety professional taking a leadership role.

Step 2 – Assessment, Identification, and Analysis of the Business Risks and sources used to measure and assess the risks.

There are many risk management tools to accomplish these aspects of the process. Assessment tools and Identification tools work in conjunction to determine the controls or lack of controls of hazards within any organization. A large shopping center/real estate operator's risk manager has developed a tool in conjunction with their insurance broker risk control consultant to determine the extent of management controls in place at each of its centers throughout the US. The company employs custodial, maintenance, security and management personnel at each location. The form asks questions to evaluate both hazards and controls in each of the following categories:

1. Janitorial Services including janitorial closets, service corridors, freight elevators, fire stairs, service bays, truck doors, common area stairs, chemicals, PPE, rest rooms, first aid, electrical equipment and cleaning equipment.
2. Security Services including automobile liability, general liability including crowd control and use of firearms.
3. Maintenance including slip and fall prevention, winter conditions including snow removal, play areas and fire protection systems.

To adequately analyze the level of management support for risk management the safety professional conducting the assessment must be knowledgeable of the technical aspects of these exposures and the management practices needed to minimize loss. A more in depth analysis may be required for the employee safeguards in place and could include but not be limited to the following:

- Electrical and machine safeguards.
- PPE
- Lock out/Tag out policies and procedures.
- Hazardous material handling, storage and disposal.
- Confined space entry procedures.
- Emergency action plans.

As indicated these are just two examples of assessment and identification tools available to the safety professional. Used properly they can lead to corrective actions to minimize and eliminate hazards that could lead to both employee and customer injuries.

Step 3 – Development of Business Risk Management Strategies

The next step is a team effort based on the knowledge and skills of the members of the team and the level of expertise of the consulting services provide by the companies insurance broker and insurer. The strategies can have a significant impact on the financial structure of any organization if a poor choice is made in the risk management strategy. There are several possible strategies that are used in this step including risk avoidance, risk retention, risk reduction and risk transfer.

The safety professional can play an important role in all aspects of the process. In risk avoidance the company may decide that the exposure or the injury/loss experience presents a financial burden that can be minimized by avoiding the risk. For example, the custodial operation of a shopping center may experience a high turnover and have a poor accident record in spite of the efforts by the safety professional to train and lead the safety and health process within that department. The cost is minimized by using the services of a vendor who would be required to provide insurance for the employees. There is a contractual fixed cost with this approach but the savings on the insurance impact to the experience modifier may more than offset the fixed cost of the service.

Risk retention will require the safety professional to exercise a higher level of risk control depending on the level of retention. In these programs the company will “retain” or self insure a level of insurance. Levels can be in the \$250,000 to 500,000 ranges on each injury or incident. In effect the company is paying the cost of excess insurance and funding the level below the retention. Risk control measures like adherence to safety policies and procedures becomes a critical part to minimize costs in the retention level.

Risk reduction can take several forms to control costs. The safety professional with expertise in fire protection may look for ways to reduce the risk through properly maintained fire protection systems. Another method includes separating exposures by placing high valued stock in separate fire areas.

Risk transfer typically relies on purchasing standard insurance policies or by using “hold harmless agreements.” These are means of transferring the financial impact to an insurer or to a third party.

Step 4- Designing and Implementing the Risk Management Capabilities

The extent of the step and the input from the safety professional will depend on the risk appetite of the organization. If a retention program allows for a significant cost savings, the risk control efforts will typically be a major part of the process. These efforts may include employee safety orientation, job safe procedures, electrical, lock out/tag out, fall protection, driver safety training, and confined space training. Weekly safety talks and on going safety training will play a key role in communicating the safety message of risk management to all levels of employees. On the other hand, if a guaranteed insurance program is selected as the strategy, there may be little or no emphasis place on safety beyond some minimal compliance programs. The safety professional can show his/her worth by continually reviewing risk management data (i.e. insurance costs, loss runs, recommendations from insurance carriers loss control personnel) to be pro-active in leading programs and processes to minimize loss producing conditions. One area that is commonly

overlooked is the environmental exposure in large properties. If a shopping center is required to install retention ponds for water runoff from the parking lots, the ponds could accumulate a variety of wastes that may or not be hazardous. The pond itself presents an attractive nuisance to the local residents and should be monitored and fenced with proper signage.

Step 5- Monitoring Risk Management Performance

Some one once said “the proof is in the pudding”. An attendee at one of this author’s presentation indicated that you must eat the pudding to taste it as the meaning of that statement. In the same way, a risk management process is only as good as the efforts of the team members. In Step 4, the risk management data notes “loss runs”. This information is historical data based on the payments or anticipated future payments of claims by the insurance carrier or the administrator. It plays a role in determining where claim activity has originated and could continue if changes are not made to minimize or eliminate future losses.

A five year loss run (2001 to 2006) for a single location of a large eastern shopping center operator included the following data:

Location	Frequency	% of Total	Incurred Losses	% of Total
Interior	53	49%	\$ 122,159	17%
Sidewalk	13	13%	\$ 362,531	49%
Parking	29	29%	\$ 182,379	25%
Food Court	9	8%	\$ 60,017	8%
Entrance	3	3%	\$ 5,153	1%
Elevator/Escalator	2	2%	\$ 198	0%

The data is interesting in that the highest frequency of incidents occurred on the interior of the shopping center but the sidewalks incidents incurred the highest cost. The average cost per incident is also a critical component. The average cost of an interior incident is less than \$2,000 versus the average cost of a food court incident is over \$6,000. In order to attempt meaningful risk control efforts the data would need to include the specific areas of the center where incidents are taking place. A mall map could be used to identify problem areas. A large southeastern mall developer and operator have successfully used this mapping method to target problem areas. Detailed incident reports are also needed to determine the incident types. One could assume that the incidents are all slip, trip, fall incidents but that may be an erroneous assumption. If the security guards are completing the incident reports, the safety professional must insure that they are trained in the investigation process and in handling incident situations to obtain the maximum data for risk control corrective actions.

Step 6 – Continual Improvement of Risk Management Capabilities

Fortunately or unfortunately the work of the safety professional is rarely if ever done. Earlier in this article a comment was made regarding the terrorist attack of 2001. A recent report by the RAND Corporation indicated that 60 terrorist attacks against shopping centers in 21 countries have occurred since 1998. A study was conducted at three shopping enters to identify and prioritize security measures that can substantially reduce the risk of these attacks. A total of 39

measures were outlined in the report to minimize terrorist attacks noting that a high priority set of six to ten measures that can cut the terrorism risk to just one-fifteenth the level it would otherwise be, based on the three centers studied. The cost of the measures range from \$500,000 to \$2 million per year at each center (5). Is there a risk-reward in this scenario? It may depend on the shopper. Will shoppers welcome increased security or shop elsewhere?

Summary

The safety professional of the future must gain a clear understanding of risk management to enhance his/her leadership role in any organization. Obtaining the skills and knowledge of the risks of doing business is imperative to the personal growth of this position. Being a team player will provide insight into the goals and objectives as well as the strategic plans where the safety professional can have an impact on the bottom line.

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