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Risk Managers are from Mars, Safety Professionals from Venus: The Safety Professional's Role in ERM

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Introduction

"To provide professional knowledge and expertise in the administration and support of environmental health and safety programs. Responsible for the overall coordination and implementation of environmental health and safety programs to assure compliance with regulatory agency guidelines and institutional policies."

For the vast majority of safety professionals, the above summary provides a very concise description of their roles within their organizations. While most safety professionals would also add a statement about preventing injuries, the reality is that this is the current job description for a safety manager position at the University of Texas at Dallas. (University of Texas at Dallas Human Resources, 2007). Although the safety profession has made significant strides in making our workplaces safer, the bottom line is that too many senior leaders and, even more unfortunately, safety professionals view safety as a compliance function and not an integral part of achieving the organization's mission.

Compliance-Based versus Risk-Based Safety Programs

Imagine for a moment that you have just been hired as the new safety manager for an organization. Would you prefer an organization that, while deemed highly compliant with OSHA, lacks a positive safety culture and has a high injury rate; or an organization with a positive safety culture and few injuries in spite of not complying with OSHA regulations it has evaluated as not likely to result in an injury or accident? This is essentially the conflict between compliance-based and risk-based models.

While most safety professionals understand the difference between compliance-based and risk-based programs, our budgets and organizational structures are usually designed and built with a compliance-based set of objectives in mind.

Most university systems are required to comply with a broad array of regulations. These lead to formal positions dedicated to a bio-safety officer, a chemical hygiene officer, a laser safety officer, a radiation safety officer, and others. All of these compliance requirements

collectively establish the structure and funding of a safety department comprised of a cluster of silos, each housing a core compliance function. Unfortunately, injury reduction is not a compliance function, and therefore becomes “nobody’s job” in these compliance-based programs.

In a risk-based model, compliance functions are not ignored, but recognized as elements of a broader mission to address the risks to the organization and funded according to that context. For most organizations, workplace injuries and their associated costs pose much greater financial and operational risks than an OSHA fine. Additionally, a risk-based model often requires an organization to go above and beyond regulations by focusing on injury reduction. This often requires a greater investment in the safety program on the part of senior leadership, but the potential return on that investment is often substantially higher than in models devoted primarily to compliance.

Case Study: University of California

The University of California system consists of ten campuses, five medical centers, one national laboratory, and approximately 175,000 employees. Prior to 2006, in the University environment, health and safety departments were very compliance-focused, and had very little interaction with the workers’ compensation departments at each campus. Most EHS departments did not have an ergonomist on staff or contract for such services, yet ergonomic-related injuries accounted for over half of the workers’ compensation costs, or approximately $25 million annually. One of the main reasons for not staffing an ergonomist position was that, without regulations requiring it, the position could not be justified when there are other compliance programs needing staffing.

With the creation of a system-wide Chief Risk Officer (CRO) position and the hiring of Grace Crickette to fill the position, an ERM framework was introduced with a major focus on reducing the total cost of risk through prevention efforts. A risk-based grant program was started called “Be Smart About Safety,” which provided funding for new and innovative programs that would help reduce injuries and workers’ compensation costs. Over a five-year period, approximately $60 million in new money has been used to fund injury reduction efforts, which resulted in direct savings of over $420 million over this same time period. (Crickette, 2011)

Traditional Barriers to Risk-Based Safety Programs

In many organizations, safety reports up through the human resources or facilities department, while Risk Management traditionally reports to the financial side of the organization. The nature of these reporting relationships encourages risk management and Safety to become separate and distinct silos with limited communication and collaboration. Additionally, the traditional definitions and perceptions of the roles of each discipline become can become barriers (See Exhibit 1).

	Safety	Risk Management
Definition	That science and art devoted to the recognition, evaluation and control of environmental factors or stresses, arising in and from the workplace, which may cause sickness, impaired health and well being or significant discomfort and inefficiency among workers and/or citizens of the community (NSC, Fundamentals of Industrial Hygiene, 3rd Edition)	Risk management is the process of making and implementing decisions that will minimize the adverse effects of accidental and business losses on an organization. (Fundamentals of Risk Management, 3rd Edition, Volume 1)
How executives view each Department	• Concerned with regulatory compliance • Believes Safety keeps employees safe • Rarely works closely with Legal • Rarely involved with Purchasing • Rarely works closely with CFO or Accounting	• Concerned with overall operations of the company • Believes Risk Management helps keep the company **running** • Works closely with Legal • Purchases insurance • Works closely with CFO and Accounting
How the Safety and Risk Management Departments view each other	Risk Management views Safety's job as: • Compliance • Doing inspections • Accident investigations • Focused on employee safety	Safety views Risk Management's job as: • Buying insurance • Settling claims • Analyzing loss data • Access to resources • Risk managers/actuaries don't give credit for safety initiatives

Exhibit 1. Definitions and Perceptions (Young, 2008)

But if you reconsider the roles that safety and risk management have in an organization, they rely heavily upon one another to be truly successful. In order to obtain lower insurance rates, Risk management needs a low injury rate. In order to decrease injury rates, Safety needs to prioritize its efforts with information collected and maintained by Risk Management, and for Risk Management to advocate with senior leadership for resources to go beyond regulatory compliance.

Few safety professionals would disagree with what I have stated so far, but how do you get senior leadership to endorse a greater investment in safety? To this end, a strong understanding of the roles Safety can take in enterprise risk management is vital.

Enterprise Risk Management for the Safety Professional

The best safety professionals understand risk management, and the best risk managers understand safety (Young, 2008). ERM is essentially the marriage of the two disciplines as it requires the risk and safety managers to collaborate in identifying and controlling a broad array of risk exposures in support of the organization's strategic plan and mission.

Although there are various ERM models, they share a common lexicon of risks (Crickette, 2011):

- **Hazard risk** includes risks related to accidental losses, such as workplace injuries, liability torts, property damage, and natural disasters.

- **Financial risk** includes risks related to financial activities, such as pricing, asset valuation, currency fluctuations, and liquidity.

- **Operational risk** includes risks related to operations, such as supply chain, customer satisfaction, product failure, or loss of key personnel.

- **Strategic risk** includes risks related with an organization's long-term goals and management, such as partnerships, mergers, and acquisitions.

- **Reputational risk** includes risks related to the trustworthiness of business. Damage to a firm's reputation can result in lost revenue or destruction of shareholder value.

- **Compliance risk** includes risks related to violations of or nonconformance with laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards.

While most safety professionals will recognize safety's role in reducing hazard and compliance risk, safety can also play a vital role in mitigating operational, strategic, and reputational risks. Consider the following scenario:

You are the newly hired safety professional for successful, growing fast food chain. As a safety professional, we are taught to first identify the hazards and then develop methods to control them, implement the controls, and monitor the results. Under a traditional approach, our concern might be limited to preventing workplace injuries and foodborne illness claims. Under an ERM model, we would still be concerned with claims, but would analyze the hazards, considering the additional types of risk listed above. From a reputational risk standpoint, a foodborne illness claim in which a child dies would most likely result in negative national media attention, which would most likely adversely affect sales. While insurance may cover the actual claim costs, the negative press could impact the organization's ability to fulfill its vision, thwart expansion into new markets, or even jeopardize its ability to stay in business.

The development of a robust food safety program will not only help prevent this type of claim from occurring, but if a claim was to occur, it will help mitigate the impact on the organization's reputation. One needs only to look at how long it took Jack in the Box to recover from the *e.coli* outbreak in the early 1990s.

The above example illustrates that while some may see food safety regulations as "just another regulatory compliance program," an organization has a strong incentive to allocate resources to it that go beyond minimum compliance efforts when the program is viewed from an

ERM perspective. The challenge safety professionals face lies in demonstrating how their activities support the overall mission and strategic objectives of the organization.

The Next Steps

The development of ANSI/AIHA Z10-2005, *American National Standard for Occupational Health and Safety Management Systems* calls for the integration of safety management into operations at all levels. Another name given to ERM is that "Everyone is a Risk Manager" (Crickette, 2011), which essentially means risk management is integrated into all levels of operations under an ERM model. With the recent adoption of ISO 31000:2009, *Risk Management – Principles and Guidelines*, the management framework for both safety and risk are very closely aligned.

The critical remaining piece of this puzzle is ensuring that safety professionals fully understand their roles in enterprise risk management and traditional risk management. If a safety professional wants an integral role in supporting his or her organization's mission, he or she must demonstrate the value of efforts beyond compliance. Enterprise risk management can provide this framework through the use of risk assessments and risk-based budgeting tools that consider a broad range of risks.

An appropriate end result of this effort is the redefinition of the safety professional's role:

To provide professional knowledge and expertise in the administration, integration, and support of environmental health and safety programs at all levels of the organization. In coordination with the risk manager, develops environmental health and safety programs that reduce hazard, operational, strategic, reputational, and compliance risks in support of the strategic objectives and mission of the organization.

References

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