Enterprise Risk Management for the Safety Professional

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Overview

The safety professional needs to embrace enterprise-wide risk management to ensure that their input is framed using the 'correct' language, is risk-based, business-focused, commercially relevant and integrated with organizational policies and systems. Without this enterprise approach, safety + fleet risks will not become enterprise-wide processes.

Aims

❑ To explain:
> The 'mystery' of business-integrated risk management
> How the safety professional can contribute towards Enterprise Risk Management
> How the safety professional can move up the organisational 'food-chain' by using enterprise risk management tools and techniques
> The resulting personal & professional development needs of the safety professional

❑ To use client case studies to show the value of a strategic approach to managing safety and motor vehicle risks, linked to business risk management, corporate governance and people management
❑ To show participants how they can 'step outside' their traditional roles and approaches by closely linking the safety function to organisational development
❑ To show how business-focused and integrated safety systems can place the responsibility for safety, where it should lie – with directors and senior managers

Introduction

For Safety Professionals Enterprise Risk Management (ERM) is something they may not have heard about and even if they have, it still probably remains a mystery.

ERM is the expansion of traditional risk management techniques across all aspects of an organisation (enterprise). It started life as an approach to improve on typical insurance based risk management, but has in recent times has taken hold because of concern about corporate governance. This particular concern was triggered by extremely poor corporate governance in major organisations, both in the corporate business sector and the insurance broking sector, with some very large 'company names' being implicated.

ERM looks at risks that can occur right across the enterprise and the process should take a risk-based approach to the balancing of risk minimisation verses opportunity management and not the too often risk averse legally compliant approach. Running any enterprise will always involve risk – commercial, financial, operational risks etc. and the key to maximising the opportunities for the enterprise from the new initiative, 'taking a risk', must be balanced, by the minimisation of risks wherever possible, but not to the extent that the new initiative is stifled or controlled to such a degree that any opportunity is lost.

The challenges for safety professionals today and particularly those who work in traditional risk management and insurance fields, are to improve their knowledge of risk management principles and processes as applied to an enterprise in general and to the management of safety risk in particular.

We show how changing to a risk-based approach enables safety professionals to enhance their contribution and add value to the organisation, increase their level of influence and provide a valuable input to organisational development. We also demonstrate how they can use a risk-based approach to develop themselves, both professionally and personally.

We describe how safety professionals can contribute towards risk management, and introduce our approach for identifying and managing those risks within an organisation that safety professionals can influence, either directly or indirectly.

Core concepts, including organisational factors, are described and referred to, and we discuss how key aspects of managing safety risks are vital to the creation of a strategy that will enable safety professionals to increase their influence on an organisation.

We also describe how safety professionals can create initiatives to increase their influence at higher levels of management decision-making, and therefore their added value, all within a business and risk management focused approach. Like many other parts of an organisation, the safety function too often undertakes its activities in accordance with its own self-image and based on 'external' perceptions and expectations of its contribution. This can cause many safety professionals to contribute in a limited way, ignoring the potential contribution they can make to their organisation and to their professional and personal development.

By changing to a risk based approach, safety professionals will be able to enhance its contribution, be increasingly seen as organisationally relevant and make a significant contribution to organisational development and the achievement of the organisation's strategy and objectives.

Increasingly, safety professionals have to provide advice and guidance that is competent and organisationally relevant. There have been a number of prosecutions in the UK of safety professionals, raising the question within the profession about whether safety practitioners, as individuals are increasingly at risk and vulnerable resulting from their job role. We have used the term 'safety professional' as we believe that it describes a level of expertise and added value that goes beyond the usual term 'competency', as professionalism is only partly about competency. The term is also used to describe people with the 'safety' profession that undertake 'safety' related activities e.g. occupational health, safety engineering. Safety practitioners require professionalism in other areas, e.g. communicating with and influencing senior management and being able to talk a business language to demonstrate to the organisation how safety risk management can add value.

There is three groups that can benefit from the approaches outlined in this paper:
1 Organisations that are looking for a new approach to managing their safety risks within the overall context of enterprise risk management (ERM), corporate governance (CG) and Corporate Social Responsibility (CSR).
2 In-house safety professionals who wish to understand the concept of enterprise risk management and the contribution that can be made to add value to the business.
3 Specialist external advisors on safety/ERM/CG and CSR who are looking for an enhanced approach to support their clients to more effectively manage their safety risks.

Any management system for managing safety risks needs to be business and commercially focused and relevant to an enterprise but, as a minimum, the substantial legal requirements must be taken into account.

Enterprise Risk Management

Overview
Enterprise risk management (ERM) is rapidly becoming one of the most important business imperatives. At its most basic level it enables an organisation (enterprise) to develop and implement a consistent approach to managing risk across the whole organisation.

ERM has evolved out of insurance focused risk management, but looks beyond managing just the risks that are related to insurance cover. If an enterprise it to be successful and remain in business it must adapt constantly to its internal and external environment and the risk that those changes will bring. The risks that emerge and change over time need to be managed and not ignored, simply because they are not covered by insurance.

Enterprises often make changes to their activities and operations, but only look at the 'upside' and not the 'downside'. Enterprise risk management will encourage all changes in activities and operations etc., to be considered – in advance of any change – to judge the 'upside' and the 'downside' and balance the risk of making the change. Adaptations to the change may be required to reduce the risk to tolerable levels, but without stifling or stopping the opportunity from achieving its maximum potential. This is often a challenge for safety professionals who generally look to reduce a risk to as low as possible, without considering the overall downside consequences and the benefits of the upside.

The need for organisations to identify, assess and manage risk has never been greater. The fast changing nature of the business environment, the speed with which products and services can be brought to market, and the way that established organisations can soon lose what was hitherto a strong market position has meant that all organisations, large and small, along with public bodies, need to think about the way their organisations are run and the inherent risks across their total enterprise.

Risk is not something that comes into play when something goes wrong. Risk exists throughout the business cycle, from identifying a new product/service idea right through research, development, and 'production', into distribution and after-sales support.

ERM is a process consisting of well defined steps that, taken in sequence, support better business decision-making by contributing to a greater insight into risks and their potential consequences, both positive and negative.

The process is as much about identifying and maximising opportunities as it is about minimising unplanned losses. An essential element of the ERM process is to ensure that the identified risks and their control processes are closely monitored. By adopting effective ERM tools and techniques, organisations, and in particular safety professionals, can help to improve the management of the business and business performance that are linked to the organisation's strategy, goals and objectives.

Risk Coverage
Set out below are examples of risk categories typically covered by ERM:
❑ Strategic
❑ Operational
❑ Financial
❑ Human Capital
❑ Technology
❑ Legal & Regulatory (includes safety risks)

It is important for safety professionals to ensure that safety risks are robustly considered during the ERM process, so they are allocated an appropriate level of resource. This requires the safety professional to see safety risks within a broader enterprise context and to understand that an organisation, may decide when using an ERM process, coupled with a risk-based approach to re-allocate resources away from the management of safety risks.

The safety professional therefore must have the professional and personal skills and competencies to make a strong and valid business case (not legal compliance arguments) for an appropriate level of resources. Unfortunately, making a case on the basis of legal compliance alone, is unlikely to 'win the day', but many safety practioners still believe that the legal compliance argument is all that is needed.

Identify how safety risks are created
The best way of building a strong business argument is to use a process that identifies how the enterprise is creating safety risks and evaluating the implications, and how those risks could be better managed to benefit the business and as a consequence benefit employees, workers, customers etc.

The enterprise areas to be considered are:
- Organisational Context
  - Activity
  - Location (s)
  - Background history
  - Ownership
  - Political & external influences
  - Commercial status
  - Business strategies
- Organisational Factors
  - Organisational structure
  - Core values
  - Goals & objectives
  - Compensation and rewards
- Organisational Processes
  - Business planning
  - External controls
  - Management control
  - Risk management

The safety professional may initially find resistance when they seek to review the above areas, but the strength lies in the undeniable fact that 'legal compliance' is not a motivator for action, but evidence of uncontrolled or poorly controlled risks with significant business impacts and downsides is a clear call to action.

Benefits of ERM
The benefits of ERM are many, and a selection is listed below:
- More effective strategic planning.
- Increased knowledge and understanding of exposure to risk and the ability to recognise and evaluate new opportunities.
- Better utilisation of resources.
- Strengthened culture for continued improvement and collective ERM.

- ❑ Creating a best practice, quality-focused and risk-aware organisation.
- ❑ A systematic, well-informed and thorough method of decision-making.
- ❑ Improving cost control.
- ❑ Reducing unplanned losses.
- ❑ Willingness for external review.
- ❑ Enhancement of shareholder value by maximising opportunities and minimising losses.

ERM Vocabulary

Safety professionals should seek to understand their organisation's ERM vocabulary or develop their own for use within the safety function. If no organisational vocabulary currently exists, then by developing and using their own vocabulary, safety professionals will be able to demonstrate credibility.

Before embarking on the creation of a new or separate vocabulary, safety professionals should liaise with ERM specialists within their organisation to agree a common set of definitions that they could use without confusing traditional risk focused functions, such as insurance, that may already have their own terminology.

To assist this process, we have included definitions from two leading risk management standards to aid your understanding of the terminology we use in this paper. The first Standard (United Kingdom) views risk management as the management of potential negative consequences, whilst the latter Standard (Australian and New Zealand) – the world's first published ERM standard, and revised in 2004 – views risk management as the maximisation of opportunities and the minimisation of risk. As described earlier, our view is that SAFETY should approach and contribute towards an organisation's ERM system, based on the principle of the balancing of the maximisation of opportunities and the minimisation of risks.

United Kingdom Standard

The Institute of Risk Management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and ALARM (National Forum for Risk Management in the Public Sector) jointly published a UK Risk Management Standard in October 2002 to 'set the scene for coherent thinking and application in the ever-widening field of risk management'.

The Standard is aligned to ISO/IEC Guide 73 – Risk Management Vocabulary and, as an Appendix, contains the ISO vocabulary. We have extracted some of the key definitions:
- ❑ Risk = 'Combination of the probability of an event and its consequence.'
- ❑ Risk management = 'Co-ordinated activities to direct and control an organisation with regard to risk.'
- ❑ Risk management system = 'Set of elements of an organisation's management system concerned with managing risk.'
- ❑ Risk treatment = 'Process of selection and implementation of measures to modify risk.'
- ❑ Risk control = 'Actions implementing risk management decisions.'
- ❑ Residual risk = 'Risk remaining after risk treatment.'

The above Standard says that the term 'risk' is generally used only to refer to negative consequences. The focus of this paper, however, is towards a broader more balanced approach that also includes the management of potential opportunities within the process of risk management, whilst minimising risk within those opportunities.

Australian and New Zealand Standard
A joint Australian and New Zealand Risk Management Standard (AS/NZS 4360: 2004) also includes the following definitions that do, in general, take a broader, more balanced view of risk management:

❑ Risk = 'The chance of something happening that will have an impact upon objectives. It is measured in terms of consequences and likelihood.'
❑ Risk management = 'The culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects.'
❑ Risk management process = 'The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.'
❑ Risk treatment = 'Selection and implementation of appropriate options for dealing with risk.'
❑ Risk control = 'That part of risk management that involves the implementation of policies, standards, procedures and physical changes to eliminate or minimise adverse risk.'
❑ Residual risk = 'The remaining level of risk after risk treatment measures have been taken.'

As a consequence of an increasing focus on risk, organisations are beginning to realise that virtually none of their activities is risk free. Whether considering their people, their customers, suppliers, operations or their finances, there will always be risks arising from possible developments that could prevent or impede an organisation from realising its strategic objectives.

In general ERM has been a process that large organisations, or those with a heavy insurance requirement, have concerned themselves with. In addition the majority of references to ERM relate to either insurance linked activity or financial ERM. However, due to some recent high-profile cases, it is likely that future UK legislation will increasingly require all organisations – large and small, private and public – to take on board ERM concepts and include it within their strategic, tactical and normal day-to-day operational activities, rather than be reactive when things go wrong. There is increasing pressure for ERM processes to be extended beyond insurance and financial based risks.

There is also a much-increased global focus on corporate governance as a result of significant failures in high-profile companies in many parts of the world, e.g. Enron and WorldCom. Effective corporate governance should also include the organisation's management of its safety risks.

Safety Risk Management

What is "Safety risk management" and why do we use the term? Our description of safety risk management involves the integrated risk management of the following aspects:
- ❑ Safety organisational and strategic risks.
- ❑ Safety tactical and operational risks.
- ❑ Safety professional risks.
- ❑ Safety personal risks.

We use the term "safety risk management" because we believe that the risks to be managed or supported by the safety function are much broader that the functions typical activities at a tactical and operational level. Safety functions can make an enhanced contribution to the organisation's overall management of risk if it looks both outward and inward from its current position and contribution.

Safety organisational and strategic risks
This is an approach to safety risk management that treats the organisation's safety organisational and strategic risks as a high-level strategic factor that is a positive and active asset to be developed, not a passive cost.

Safety tactical and operational risks
These are risks created by the typical activities of the safety function and the operational management of the function and its direct support for the organisation, typically at the tactical and operational levels.

Safety Professional Risks
These are risks created as a result of the perceptions (often historical, and often created in other organisations) formed by managers and employees of the role and contribution that is currently being made, or can be made, by the safety function to the organisation, and to managers and employees on a personal level.

Safety Personal Risks
These are risks created by a lack of competency, professionalism, role and personal development that restricts the individual safety professional from making an effective contribution to the organisation.

Primary Role
We believe that the primary role of the safety function is to focus on all of the above aspects to support the management of risks and organisational development and success:
1 The organisation – by advising senior management about the benefits of making ERM part of the normal management process and supporting the enhancement of general internal control systems.
2 The safety function – by making the identification, assessment and management of opportunities and risks a cornerstone of its approach.

3   Safety professionals – by creating a structured process for the professional development of the organisation's safety team, so that their individual and collective contribution is enhanced.

Many organisations are too often restricted in their approach to innovation and creative approaches to management challenges. They often also regard the safety function as a support function rather than an added value business partnership opportunity that can provide a valuable focus to assist the organisation to balance the management of opportunities and the minimisation of risk.

Restricting the contribution that can be made by the safety function has important legal, moral, financial and business implications. Safety risks within organisations that are not effectively controlled can have a significant impact because of the increasing dependency of related business and operational functions. Some organisations have realised the criticality of key elements of their operation that are often not replicated elsewhere, either within the organisation or externally. As a consequence, some organisations have undertaken general ERM reviews, but many have not considered the safety risks that are often equally as crucial.

Every organisation's risk profile is different. The key issue for any organisation is to identify and measure its total risk exposures and opportunities and manage them to the benefit of all stakeholders.

Current Perceptions
Safety professionals not only need to influence their organisations via ERM, CG and CSR processes, they also need to manage their professional and personal risks.

Safety Professional Risks
- ❑ What is the organisation's opinion of the contribution made by safety practioners to the achievement of the organisation's objectives?
- ❑ What is the organisation's opinion of the safety function, and what areas does the organisation think safety does well or could be improved?
- ❑ What is the organisation's perception of the ability of the safety function to increase its influence, and in what areas?
- ❑ Being too closely aligned to the management process, therefore not able to provide impartial advice or take a balanced view.
- ❑ Being seen by the organisation and 'general' management as a legal compliance risk-averse function, thereby not recognising or asking for a more effective contribution.
- ❑ Focusing on operational level functions, thereby restricting their ability to make a more effective contribution.
- ❑ Being seen as a 'blocker' to progress and a guardian of a risk-averse legal compliance activity.
- ❑ Seeing themselves in the role of legal compliance enforcer
- ❑ Not 'speaking' a business language, and not making a contribution to business and commercial strategy, goals and objectives.
- ❑ Focusing on the cost of intervention and not considering the cost of inaction.

❑ Focusing only on the minimisation of risks/costs and not including a focus on the maximisation of opportunities.
❑ Not using available data to identify risks and to influence methods of cost control.
❑ Not maintaining an active continuing professional development (CPD) process for those working in the safety function, which covers both professional and personal development.

Safety Personal Risks
Safety professionals are no different to any other jobholder, in that their contribution to an organisation can be restricted by the 'constraints' of their current role or the historical perception of the abilities of previous jobholders. However, to ensure that the job or the historical perception does not constrain a particular job-holder, the application of a different blend of personal competencies, skills and experience must be brought to bear so the individual can 'rise above' the expected contribution. The personal risks that can affect an organisation's management of safety risks can be tackled by understanding what competencies, skills and experience are required and what development opportunities are available.

Safety professionals need to develop the key skills of facilitation and relationship building to ensure that the organisation maintains an open culture and challenging corporate 'mind' and is prepared to operate as a matrix of opportunity 'teams', rather than each activity within the organisation protecting its own responsibility areas and not thinking about or contributing to the overall strategic objectives. In addition, they need to develop and bring to bear the skills of generic influencing, facilitation, blue-sky thinking and non-silo-constrained skills to support the development of business focused and commercially relevant safety risk management systems. However, the safety professional will often need allies within the organisation to start the process of getting on the enterprise risk management and business agenda.

Importance of Safety Risk Management

The effective application of legislation and the need for robust business relevant and integrated safety risk management processes are crucial for all organisations. Regardless of what organisations say, in practice, safety risk management is often not seen as core to the effective performance of the business. This can arise for three main reasons:
1   Safety is seen as merely a legal compliance function that makes sure that the organisation, as a minimum, is legally compliant.
2   Safety activities are often described, whether linked to legislation or not, as 'red tape'.
3   The reluctance of safety professionals to get themselves on the 'risk and business agenda'. This may be either because of a concern that they may not be able to take a detached, independent view if they become too identified as part of the business and commercial aspects of the organisation, or because they do not have the necessary competency.

If safety professionals can 'get on the business and risk agenda' within their organisations, then the risks of not managing the organisation's safety risks come into sharper focus and the added value of the safety function is much easier to demonstrate, be understood and welcomed.

The secret is for safety professionals to think 'risk' when evaluating their contribution and to use a cost-benefit approach that compares the cost of an intervention with the cost of inaction, i.e. leaving the risk uncontrolled. Using such an approach enables them to demonstrate how they can add value, rather than be perceived as a risk-averse legislative-focused function that only adds cost to the business. Changing the focus and perception of the safety function can lead to new management approaches that identify different priorities and solutions, and thereby enhance the management of business and commercial opportunities.

Role of Safety Function
Before we start to discuss how safety professionals can become more involved in ERM, let us consider in more detail the role of the safety function, within an ERM process.

1 **Broader business agenda**
   The management of risk is an essential part of corporate governance (CG) and corporate social responsibility (CSR), both concepts that are increasingly becoming the sign of a well-run and responsible organisation. The protection of all stakeholders' 'capital' is a vital aspect of good business management, and the key method is to use ERM techniques throughout the business process. Safety professionals should be ideally placed to influence appropriate management system developments, and create a proactive internal environment for risk identification and resolution. Safety professionals must seek to ensure that the organisation includes the concept of ERM within its normal management of the business. It is vital that the identification and management of risk is not a reactive process when something goes wrong, but something that is considered at all stages of a business. Safety professionals need to proactively contribute to the creation of an organisation that has the management of risk at the heart of its culture and business processes.

2 **Balancing opportunities and risks**
   The organisation must ensure that its development of business opportunities within its strategic objectives must not be constrained by risk-averse approaches, nor continued without due regard to the risks. The management of risk must be effectively balanced with the identification and management of opportunities. In addition, the culture of the organisation must not include human factors that cause people to adopt risk creating behaviours rather than intelligent risk-taking. Safety professionals must support the identification of negative hidden belief systems. For example, the organisation may say, 'Our people are our most important asset' – but in reality all the organisation's focus is on the achievement of financial targets. This leads to the hidden belief that the organisation's real value is 'Our people are an unimportant asset'. Safety professionals must assist the organisation to identify with the concept that risk exists in not recognising or not implementing an opportunity, rather than the traditional view that ERM is only about minimising losses before or after they occur.

3 **Using key safety skills**
   Safety professionals must use skills of facilitation and relationship building to ensure that the organisation maintains an open culture and a challenging corporate 'mind' that it is prepared to operate as a matrix of opportunity 'teams', rather than each function within the organisation protecting its own responsibility areas and not thinking about or contributing to the overall strategic objectives. Safety professionals should seek out and create business partnerships with those parts of the business that have influence through other mechanisms,

e.g. financial control, legal and company secretariat. In that way they will increase their influence via direct and indirect routes.

4   Safety role development
Safety professionals should seek to use ERM to demonstrate added value, by identifying and managing risks across the whole range of safety activities. Safety professionals need to get the basic legal compliance activities optimised. Once the most cost-effective and efficient systems are in place, they can concentrate on increasing their contribution to the organisation, by adopting proactive approaches rather than reactive responses to organisational developments. Safety professionals can contribute to a much greater degree if they use tools and techniques that demonstrate their ERM credentials and their business and commercial awareness and sensitivity. An increased contribution will enhance the professional and personal development of the safety professionals.

5   Safety risk management
If the safety function is to develop its role and increase its added value, then it must actively identify the risks that it is supporting or can influence elsewhere within the organisation, create mechanisms for control and ensure that business managers have the skills/knowledge to manage them on an ongoing basis. The identification of risk must be linked to a 'lost opportunity' approach of identifying the direct and indirect cost of inactivity, compared to the cost of activity. Each safety supported activity has a cost of action, but equally has cost of inaction. For example, there is a cost in developing managers to undertake effective management of safety processes, but equally there is a cost of not providing them with the skills, so that risks are not managed, losses are created and accidents/injuries occur. Unfortunately, such intangible costs do not appear on the balance sheet, and therefore are often ignored during decision-making.

Types of Safety Activities

Safety role development can also be viewed under different types of safety activities, namely safety operations, business focused and business partnerships.

Safety Operations
Essentially this includes safety administration, policies and procedures, and safety internal systems, to ensure full understanding by the safety team, consistency of application, etc. The safety function will have a general identification of what can go wrong and how to minimise these risks. Safety professionals must ensure that they deliver these base activities optimally with a high level of customer satisfaction, otherwise their efforts to get involved in 'higher' level activities will have no creditability. They can increase their added value by managing these activities in a proactive manner, providing management with core information, such as loss and accident figures that they can use to improve their costs and reduce risk. Too often, safety information that is potentially useful to managers is held on a computer or hard-copy system, under the control of safety, but not extracted, analysed and shared with business managers so that the safety professionals can work with them to influence a change in practice.

Business-Focused Safety
As safety professionals improve and optimise their operational activities, the organisation can begin to appreciate that they can add value to the business, but often they are still not 'welcome' in the boardroom. Consequently, they are only asked for a reactive input to business decisions after they have been finalised. They are often fighting a rearguard action and can only add minimal value if they are reacting to decisions that may have been taken without regard to the safety implications. They often have to resort to using changes in legislation as a way to introduce necessary changes in business and operational processes, rather than being able to put these on the business agenda in a proactive manner. The safety professional needs to be proactive in influencing the organisation to put safety issues on the business agenda. They can demonstrate how they can add value by keeping tuned-in to business developments in the organisation and getting themselves invited to management meetings to present proposals on the safety aspects of these developments.

Business Partnerships
By taking the initiatives described in the preceding section, safety professionals can get themselves involved in the discussion and decisions on future business strategies during the active development stage, rather than picking up the pieces once the strategies or implementation plans have been decided. Their overall aim needs to be to get them established as valued members of the organisations management team in recognition of their contribution to the organisation. One measure of success is whether managers seek them out for one-on-one discussions and advice at an early stage of their thinking about new activities.

Safety Risks

Safety risk management aspects of organisations must be recognised and included as a core element of the delivery of the strategic vision of the organisation. The risk of relying on old-style practices is too serious to contemplate. The effective management of safety can be a competitive advantage and can be a definite motivator for employees. Employees or potential employees are starting to look at the broader picture when deciding on the value of an employment relationship with an organisation. Part of that relationship is a focus on the health and safety of employees.

As a consequence, in western economies the changing balance of power and changes in the relationships between the employer and the employed is much more fluid and dependent on economic conditions. This is often referred to as 'the changing psychological contract' between employers and the employed.

Psychological Contract

The psychological contract influences employee's beliefs and behaviour in the workplace. From the recruitment stage of an employee's work life to retirement or resignation, it can have a profound effect on the attitudes and well being of an individual. It is commonly understood as an individual's belief about the terms and conditions of a reciprocal exchange agreement with an employer or manager; a belief that some form of promise has been made and that the terms are accepted by all involved.

The psychological contract is an unwritten set of expectations between everyone in an organisation and, unlike the written contract, is continually changing. By nature it is a flexible and undefined set of terms, which may be interpreted by the individual in different ways at different stages in their working life. Although it is unwritten, it can be a significant determinant of behaviour in organisations, and perceptions of violation can have lasting effects.

When employees believe that their psychological contract has been broken, they often feel a great sense of injustice. Consequently, they are likely to reduce their contribution to their organisation both in terms of their own work performance and other 'good citizen' behaviours. These 'good citizen' behaviours can include compliance to and co-operation with SAFETY policies and procedures.

Safety professionals need to take the psychological contract into account when they advise their organisations about the impact on safety risks of changes in business and operational processes. These concepts are particularly relevant when the organisation wishes to obtain the commitment of their employees to a change in safety policies and practices.

Organisational Factors

Organisational factors are organisational characteristics that can differentiate one organisation from another, and have a major impact on the behaviour and attitudes of employees. The creation of positive and proactive organisational factors is key to the success of an organisation, and must be managed as an active management process. Key factors are:

- Vision statement – a statement of the organisation's vision for its future (sometimes called a 'mission statement') that underpins everything it says and does.
- Senior management commitment – the extent to which management are committed to the management of risk and the management of an organisation's safety risks.
- Core values – what particular aspects does the organisation focus on, what core values does it set for itself and its employees, and what hidden belief systems are actually in place, and influencing attitudes and behaviour?
- Leadership style – the energy and inspirational qualities of an organisation's leaders are a major factor in making an organisation one of the best to work for.
- Organisational culture – what value does the organisation place on the effective management of risk and, in particular safety risks?
- Hidden belief systems – what hidden belief systems are actually in place, and what influences attitudes and behaviour when no formal 'rules' are available?

- ❏ Psychological contract – to what extent is the 'unwritten' balance of the relationship between the organisation and the employee changing?
- ❏ Responsibility framework – to what extent are responsibility, authority and the allocation of resources delegated to the correct level at which action is most effective?
- ❏ Occupational stress – occupational stress has many negative consequences for organisations, and therefore it is a strategic risk that needs to be identified, quantified and managed.
- ❏ Job/role design – the ability of an organisation to create a structure, management style and work environment that encourages the best aspects of team working is a vital component in successfully managing any activity within the business, especially risk management.
- ❏ Business strategy and goal setting process – to what extent are these elements integrated and are goals and objectives formally set, cascaded, monitored and amended to take account of changing circumstances?
- ❏ Performance management system – to what extent is performance set, measured and managed to ensure active action-oriented activity?
- ❏ Compensation and rewards policies – to what extent are compensation and reward policies, aligned to the business, linked to business goals and objectives, including risk management; and rewarding those behaviours that are consistent with the organisation core values, cultural framework and hidden belief systems?
- ❏ Communication – ensuring that communication systems are effective is a challenge in most organisations but the issue becomes ever more relevant when related to the management of risk. Effective communication is the foundation on which risk management systems are based.
- ❏ Learning and development – the extent to which the organisational and individual needs for learning and development are considered as part of the means by which the organisation will achieve its objectives, and a key method used to enhance the contribution and productivity of the individual employee and teams.

Safety and ERM Processes

As boards, directors and managers increasingly become accountable for losses and ineffective management of risks, they need a strategy that assures they understand the implications and risks associated with every decision they make. Without an ERM system in place, consequences and accountability can be a lottery!

Any organisation, private or public, large or small, can benefit from using risk management tools and techniques. Many large organisations have some form of ERM in place. However, very few involve the consideration of safety risks.

Every organisation's risk profile is different, even within the same sector. The crucial issue is to identify and measure the organisation's exposures and opportunities and manage them to the benefit of all stakeholders.

Organisations simply cannot allocate responsibility for ERM to 'risk managers' and expect that the processes they are able to put in place will be welcomed, accepted and maintained by managers and employees who are already overburdened by their workload. Managers and employees are generally focused on day-to-day operations (driven by the organisation's focus on short-term 'production') and do not take a longer-term view or focus on identifying and managing intangible risks. Therefore, 'risk managers' cannot expect to get their concepts on the broader business agenda and incorporated into the way that the organisation runs if they take a risk-averse approach. There is nothing more frustrating to managers who are heavily focused on business and commerce, than to have within their ERM functions or external advisors, people who do not understand the realities of business, and therefore advise on strategies and approaches that restrict effective risk balanced decision making.

As risk is inherent in any business decision/process, those within 'ERM functions' must advise on the potential risks, but must also seek to add value by offering alternatives that are consistent with the general strategic direction that the organisation has chosen to take. 'Risk' must be on the board agenda, but it must not become a 'bored' issue that serious business managers seek to avoid because unrealistic 'risk-averse' approaches are all that is on offer. All managers within an organisation must accept the responsibility for managing risk within their area of responsibility, but equally must be given the skills and tools to do so. Additionally the organisation must ensure that the full business process for each area of operations is considered when risk exposures are being identified.

The organisational factors identified above generally have organisation wide implications and therefore must be taken into account during the creation of ERM processes. The activities of the safety function normally requires consideration of organisation wide processes, but often the safety function is not viewed as part of the general ERM system, and very often is not involved in ERM. In general organisations do not see the safety function as part of ERM, and safety professionals would not typically see themselves as operating a ERM activity or contributing towards managing risk.

If the safety function is to be included within ERM, then those whose primary function is to advise on ERM must be helped to understand and accept that the safety function is part of ERM. The benefits of including the safety function in ERM can include:

❑ Minimising safety risks will contribute towards the success of the organisation, both in tangible ways, e.g. 'productivity', but also in intangible ways, e.g. morale and compliance with internal controls.
❑ Safety professionals can support the implementation of and compliance to internal controls especially ERM. The success of internal controls, including ERM, is ultimately dependent on people, not technology, both of which are key elements of the management of safety risks.
❑ Safety professionals are ideally placed to assist with the implementation of internal controls, as they can take an organisation wide perspective, and they can operate at all levels within an organisation – strategic, tactical and operation.
❑ Safety professionals can bring their expertise to bear in these areas to ensure that the ERM system goals and objectives, and safety objectives, are integrated with performance management and reward processes.

❑ Safety professionals should seek to use skills of influencing; facilitation, strategic thinking, and non-silo-constrained thinking to assist in identifying innovative ways to ensure ERM systems are maintained.

The issue is that safety functions do not typically see themselves as ERM functions but, in reality, that is one of their fundamental roles, and needs to be one of the core competences of safety professionals.

The challenges facing safety professionals are:
1   To influence the inclusion of ERM on the broader business agenda, particularly at board level, and influence the corporate governance/internal control processes.
2   To assist management in developing the organisation to ensure that it effectively balances the management of its opportunities, whilst minimising its risks, thereby supporting the achievement of its strategic objectives.
3   To develop its role, and acceptance of the role change, to one of managing risk within the total range of its safety activities, and to increase the added value of the safety function across its range of activities.
4   To increase the influence on the business by changing the safety role from 'legal compliance' to 'business partnership'.

There are three key aspects to safety processes for managing risk:
1   Cover all business and operational processes (internal and external), by ensuring that the safety professional is asked for input to all aspects of the business, prior to final decisions being made. It is vital that facility based and field based activities are covered, plus work-related driving.
2   Current – identify the existing activities, and related hazards/risks then effectively control the risks. The relationship to other related activities, e.g. property conservation, emergency planning and business continuity must be strong, especially if they are not managed by the safety professional.
3   Future – manage changes to business and operational processes, especially where there are safety implications, so that new/amended risks continue to be managed as part of the safety system.

In addition, if the safety function is to be taken seriously as a contributor to business risk management then it must approach its areas of responsibilities by identifying exposures and then demonstrating available controls and the benefits of each.

Structured and Integrated Approach

The effective management of safety risks requires a structured approach to be adopted, and the resulting controls integrated with normal business and operational processes. Many organisations approach the management of risk either in a piecemeal manner, or reactively, following a loss.

In our experience the most effective and well managed organisations will use a structured approach that takes account of the profile of the organisation, will identify where they are exposed to risk, will evaluate existing control mechanisms, and will evaluate what more needs to be done to ensure that the risks are tolerable and effectively managed to the level decided.

In our experience, using a step-by-step approach enables the organisation to adapt the area of review and the depth of study to match the precise requirements of their organisation. In this way the necessary information is identified and decisions can be made about proportionate actions.

Safety professionals must build a business case for action by using business risk management techniques to show the balance of cost verses risk. Organisations collect much data, which the safety professional can use to show the current cost of inaction, compared to the cost of action. However, typically, safety professionals just provide the cost of action relying on the 'strength/threat' of regulations to justify action. This is mostly a poor motivator for a positive business decision. safety professionals must also resist the temptation to think that throwing money at an issue is the way to resolve the matter. Often the people or management approach is far more successful and creates a longer-term sustainable solution.

Our experience shows that employees are motivated to work well for an organisation that includes a strong focus on ERM, safety, health, human resources and training as part of the 'way they do business'.

As no organisation is exempt from a duty of care, it makes financial sense to protect employees and protect organisations from potential financial penalties, arising from business and operational risks, and accidents/ill health at work. Safety professionals must pose the question: are profits – and the reputation – sufficient to cover such losses?

As with the 'cost of quality', it is not always possible to accurately calculate the cost of losses and accidents. Consequently managers tend to focus on reducing direct costs and minimising the costs of those measures needed to comply with regulations.

As we have seen earlier, this leaves a whole range of costs (indirect costs) outside active consideration and therefore ignores the bulk of the costs and other resource implications. What is required is a complete understanding of the cost of losses. Consequently safety professionals should prompt a discussion within the organisation about what level or type of resources are needed to control these losses?

We have developed a unique risk-profiling tool that has been developed especially for safety professionals. The tool is called 'Corporate Risk Assessment' and focuses on the way in which an organisation's risks and the interrelationship between them impacts on the management of its safety risks.

We believe that safety professionals must be able to carry out a complete review of the safety function and its key areas of impact on the organisation. Safety professionals will then be able to undertake risk identification and effectively record the risk and potential risk treatments to minimise risks and maximise opportunities using a structured approach. A structured risk identification and risk treatment process will provide a valuable opportunity for safety professionals to demonstrate their risk credentials.

Through such an approach the safety professional will begin to understand the need to develop an safety risk management strategy linked to the organisations overall risk management strategy. Such strategic level involvement allows the safety professional to demonstrate the value of its increased contribution to the organisation. The organisation should then seek to further develop these opportunities to ensure that safety functions and risks are considered consistently at the highest levels within the organisation.

This is clearly preferable to a legal compliance risk adverse focus, used by many within the SAFETY function.

Summary

The aim of this paper has been that where safety professionals operate at a strategic level within the organisation's strategic, business and operational processes, they are ideally placed to make a significant and effective contribution to enterprise wide risk management. Risk management succeeds or fails based on altering managers and employee's perceptions, attitudes, behaviour and performance with regard to risk. Success will depend on effective training, performance management, reward and sanction systems and developing work practices and procedures that limit human error, increase job satisfaction and reduce stress. The above mechanisms are cross-functional and inter-related, hence the need for the safety professional's involvement at the strategic level, with a cross-functional remit.

We explained that the management of risk is a vital and key part of managing any organisation. We have showed how safety risks are not normally taken into account during more normal 'insurance/financial' focused business risk management processes to identify and control business and operational risks. We have also pointed out that if a business risk management programme is in place and meaningful risk decisions are taken further up the management tree with all relevant risk assessments in place, rather than merely making decisions on an arbitrary cost basis, then many losses could be foreseen and preventive actions taken.

So-called high-level 'cost only' decision-making is symptomatic of many board decisions taken without much thought for the risk side of the equation. However, an ERM programme should highlight the importance of risk assessments to the board/senior management and ensures that both cost and risk are taken into account when management decisions are taken and implemented.

We have explained how a ERM programme helps to elevate the profile of safety within an organisation's overall corporate governance (CG) and corporate social responsibility (CSR) approach, and stressed the need for the 'safety net' to be extended to include all potential organisational stakeholders.

Effective CG processes within an organisation must include safety risk management process and business decisions must consider all risks and consequences of a business strategy. It is traditionally difficult for safety professionals to participate in CG and CSR processes, as they often only operate at the 'operational' level within organisations and, additionally, approach their roles in a risk averse, non-business added value manner. Safety professionals can seek to increase their influence 'up the management chain' so they are asked to contribute at the 'tactical' and 'strategy' levels, where ERM is typically on the agenda. In this way safety professionals can help the organisation to manage its opportunities in a more complete manner, whilst minimising the risks.

As organisations get to grips with the increasing need to encompass all three relatively new business requirements, the safety professional will have an increasingly important role to play at board level in order to ensure that organisations fully adopt the ERM/CSR/CG principles and processes. In so doing, organisations will find themselves moving towards the ultimate goal of continual improvement in all their business performance indicators, including continual improvements in their safety management systems.

It is imperative that the safety professionals understand and talk the language of the boardroom so that a safety risk management system is accepted as part of normal business and operational processes. This ensures that safety considerations are taken into account on a cost versus risk basis, so that the business case for safety risk management is made using both sides of the cost versus risk equation. On one side of the equation are the costs – which may or may not be losses – and on the other side are the profits (including cost savings) that emanate from effective, proactive business risk management i.e. commensurate risk control systems.

It is therefore important for safety professionals to be able to quantify both the cost of loss (i.e. the risk actually resulting in a loss) and the cost of risk prevention (i.e. the control measures) in economic terms, rather than just stating 'we have to comply with what the law says' which, inevitably, is a poor motivator, especially at board level.

Safety professionals need to view their organisation, or client organisations, as a complete system so that business processes that are implemented complement one another and are designed to ensure an integrated, consistent and non-duplicating approach. This approach is appreciated and welcomed by organisations that are generally looking for flexibility, added value and not uncoordinated 'red-tape'. Organisations respond much better to the use of business and commercial focused interventions, and can see the added value of good/best practice if it is explained in business terms.

Safety professionals need to work with the organisation to implement business processes that are integrated with normal organisational processes. If safety processes are established as part of the way that the organisation runs its activities, then safety will be managed as a normal part of management and employee activities. Management and employees must be heavily involved in the design, implementation and ongoing monitoring of these processes. The organisation's safety professional should not be required to be the management systems policeman, but should focus on advising management and employees, in order to minimise the need for constant 'fire-fighting', thereby resulting in proactive resource allocation to ensure continual improvement.

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