

Risk Management vs. Safety Management: Can't we all just get along?

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The Problem

The disciplines of Safety Management and Risk Management are often thought to be independent. It is the goal of this article to not only dispel that notion, but to further the idea that they are essentially the same discipline with comparable goals. By better understanding both disciplines, an integration of the two can, and should, occur which will allow for overall better management of risk and a reduction in workplace losses. Integrations are after all, inevitable. Witness the merging of the once independent disciplines of Environmental Management, Safety Management and Occupational Health Management from the 1970's and 1980's to become Environmental Safety and Health in the 21st century. Which leads to the most important point of the article, and that is, Safety Professionals are in the best position to take over these integrated duties and lead their organization(s) in their efforts to identify, analyze and manage risk better than anyone else in the field.

The problem currently, even though it may not be widely recognized, is that the two disciplines, Safety Management and Risk Management, are not generally working together, however they are seeking the same goals and outcomes. Their common goals are reduced losses and more efficient financing of these losses leading to overall better operational efficiencies. This leads to duplicated, or overlapping, efforts that are inefficient and expensive. Further, this confuses executive level management about the true value of each department/discipline thus reducing the value and effectiveness of each. By integrating these combined efforts into a single department operating efficiencies can be gained and costs reduced.

Overview and Comparison of Safety Management and Risk Management

To better understand the hypothesis of this article the disciplines of Safety Management and Risk Management must be reviewed and compared. This is hardly a complete analysis or comparison of the disciplines, rather a simple overview touching on the major components of each.

The goal of both disciplines is to reduce losses. A loss is defined as “an unintentional mishap that does not stem from the organization’s intentional act.”¹ Or in more simplistic terms, “an unintentional event that costs the company money.” This can include property damage, injury to people, environmental damage/liability, loss of income (including loss of business opportunity) and/or loss of human resources. While Safety Management does not always view losses in exactly these terms they do try to reduce these same losses. By comparing the Safety Management and Risk Management process we see further similarities.

Safety Management Process

- Identify and analyze hazards
 - Property
 - Liability
 - Personnel
 - Automobile
 - Business Interruption
- Develop methods to eliminate and/or control hazards
- Implement chosen methods
- Monitor results/make changes

Risk Management Process²

- Identify and analyze risk exposures
 - Property
 - Liability
 - Personnel
 - Automobile
 - Business Interruption
- Examine feasible alternative risk management techniques
- Select best risk management technique(s)
- Implement chosen technique(s)
- Monitor results

Essentially, these processes are the same. Risk Management, as a discipline, teaches the process in a specific manner while Safety Management, as a discipline, is often more varied. But the processes are still essentially the same.

Both disciplines look at prevention/mitigation of losses. This is the primary focus of Safety Management, while financing the loss is often the primary focus of Risk Management. This is an important difference between the two. The discipline of Safety Management has devoted volumes of books and articles to loss prevention and loss reduction. But, in virtually all of its literature, Risk Management clearly divides the subject into five categories, and focuses on techniques to address each of these.³

- Exposure avoidance
- Loss prevention
- Loss reduction
 - Segregation of loss exposure units by

¹ Head, George L., Horn, Stephen II, *Essentials of Risk Management, Third Edition, Volume 1*

² The National Alliance for Insurance Education and Research, *Certified Risk Manager Program, Principles of Risk Management*

³ George L. Head, *Essentials of Risk Control, Third Edition, Volume 1*

- Separating loss exposure units, or
- Duplicating loss exposure units
- Contractual transfer of risk

All mitigation/control of loss is handled using one, or combinations, of these five methods. In this sense, it is easier to follow a game plan for eliminating and/or controlling losses. But, it still requires an experienced and savvy professional to properly identify the potential for loss. After all, if the exposure is not properly identified it can not be properly managed.

Probably the biggest difference between the two disciplines is finance. While Risk Management always considers the cost of financing the loss, including the cost to mitigate the loss, safety often does not. Safety may calculate the cost of the loss, including direct and indirect costs, but they rarely, if ever, get involved with where the money to pay for the loss will come from within the organization. This is generally not the fault of the Safety Manager. Rather it is indicative of the relationship between the Safety Department and executive management. Executive managers often fail to recognize Safety's ability to contribute in this area and instead relegate all financing decisions to the accounting division of the organization. Risk Management, on the other hand, will look at financing decisions and be heavily involved in insurance contracts, funded reserves or many other types of financial instruments to pay for losses. This may seem like a minor difference between the disciplines but it is huge. In order to know where the money is going to come from the Risk Manager must be linked closely with executive management, typically the CFO. This gives the Risk Manager a higher level of connectivity in the organization as compared to the Safety Manager. This difference can not be stressed enough. Often the disconnect between executive management and the Safety Manager is THE limiting factor in establishing the most effective safety program possible. Looking at the organizational structure of the company reveals why many Safety Managers are not involved in financing decisions. Generally, the Safety function is considered part of operations and falls under the control of the Chief Operating Officer (COO) or similar position even though the Safety Manager may not report directly to the COO. And again, Risk Management more often falls under the control of the Chief Financial Officer (CFO).

Another significant difference between Risk Management and Safety Management involves matters where the Safety Manager does *not* get involved. Examples of this may include, but are not limited too;

- Sexual harassment
- Financial risk
 - Investments
 - Foreign currency exchange
 - Futures/hedging contracts
 - Contracts
 - Independent contractors
 - Vendors
 - Supplies
- Employment discrimination
 - ADA related matters
- Behaviour/misbehaviour of Corporate Officers
 - Embezzlement
 - Accounting scandals

- Reputation damage

These are important areas of potential loss for the organization and can, and indeed have, resulted in an organization filing for bankruptcy. The most well know example is the Enron Corporation. All of these issues are important to the Risk Manager and they get involved in these matters on a routine basis. These are also areas that *should* be of concern to the Safety Manager because they can result in losses for the organization. Corporate level distractions like these often cause employees to lose focus on their day-to-day job and can result in employee injuries. But rarely are Safety Managers allowed to be involved. Again, this points to the differences between the two disciplines and the way organizations treat each discipline.

From an organizational implementation viewpoint we can see there are differences between the two disciplines.

Safety Management Process

- Requires first line supervisor involvement
- Limited involvement of accounting
- Requires executive management commitment
- Requires feedback from first line and mid-level managers for monitoring

Risk Management Process

- Requires involvement of executive management
- Requires accounting department involvement for financing
- Requires executive management commitment
- Requires mid-level and executive managers for monitoring

Again, the biggest difference involves the level of involvement from the executive management level. Note that Safety Management requires commitment from executive management while Risk Management requires *involvement* from executive management.

So, which discipline is better?

Safety can often get a better “safety” message to the employee because it works more closely with first line supervisors. However, it often does not get the message to executive management about the quality and/or need for the job it is doing. Contrastly, Risk Management often gets the message to executive management about the job it is doing but may not get a clear “safety” message to the employee. This is because it does not work as closely with the individual employee or first line supervisor. Executive management may view the risk management discipline as the more valuable of the two. In addition, because executive management sees Risk Management performing safety functions it may see the Safety Department as either redundant or subservient to the Risk Management department. Rarely has Risk Management been seen as subservient to Safety. Yet, the education and experience of the Safety Manager lends itself better to identifying, analyzing and controlling potential areas of loss particularly in the areas of human injury and property damage. While the education and experience of the Risk Manager lends itself better to devising ways to finance the loss. Both loss mitigation and loss financing can save the

organization significant money and should be used effectively. However, by putting emphasis on eliminating losses the organization has fewer losses it is forced to finance. So to say one discipline is better than the other is very dependent upon an individual viewpoint. Thus, both disciplines currently exist but rarely work together effectively.

So what is the solution?

The solution is to combine the two disciplines and use the best from each department. Risk Management brings expertise in financing and established connections with executive management. Safety brings strong knowledge of how to identify and eliminate/reduce losses. It also brings established relationships with first and mid-level managers. By combining these into a single department, risk can be evaluated on a more “enterprise wide” level and with more in-depth analysis. And the overall cost of risk can be reduced through better hazard recognition, analysis and control.

Contracts are an area where perhaps the greatest improvement can be realized. Contractual transfer for risk is a technique for not only transferring the cost of risk it can be used to transfer the risk itself.⁴ Many safety professionals do not get involved in the negotiating stage of contracts. But here is where their expertise is best utilized. By understanding what the contract requires they can assist the organization in transferring all or part of the risk under the contract. Thus eliminating, or reducing, the overall risk to the organization. The Risk Manager can use contract language to transfer all or part of the cost of risk under the contract. Using the expertise of both disciplines forms a synergistic action with regards to reducing risk and its subsequent costs.

Implementing the two disciplines may be a bit tricky. Neither discipline will willingly relegate their position or power to the other. Executive management will eventually make the decision. Risk Management already has a strong working relationship with executive management so the logical conclusion is that Risk Management will triumph over Safety. But, if Safety Managers begin to learn risk management techniques and speak the risk management language (money and effect of losses to the organization as a whole) then they can begin to establish better working relationships with executive management and show their value and expertise before the decision to combine both departments is made. Because Safety is better at recognizing, analyzing and controlling potential areas of loss they are the best choice to run the new department.

In order to lead the way into the future, the Safety Professional must begin now to learn risk management techniques and be able to speak the language of risk management. Many safety professionals are already doing this through continued education courses and advanced degrees in accounting, finance and risk management. But, by and large, the majority of current safety professionals are not. While earning an advanced, or subsequent, college degree is always a good idea it is not always practical for working adults. Such programs as the “Certified Risk Manager” (CRM) certification offered through “The National Alliance for Insurance Education and Research” (www.thenationalalliance.com) or the “Associate of Risk Management” (ARM) certification offered through the “American Institute for Chartered Property and Casualty Underwriters and Insurance Institute of America” (AICPCU IIA www.aicpcu.org) may be better choices. Of course, there are numerous seminars presented annually on the subject. And

⁴ George L. Head, *Essentials of Risk Management, Third Edition, Volume 1 and 2*

membership in the “Risk and Insurance Management Society” (RIMS www.rims.org) can establish relationship with Risk Managers and provide additional knowledge on the subject. Regardless of the method an individual chooses, the important thing is to begin to expand your knowledge and education in this area. More and more American Society of Safety Engineers (ASSE) programs are going in this direction. So the availability of this type of information is greater and more accessible all the time.

Another way for the safety professional to position himself to take the lead is to begin establishing a good working relationship with the existing Risk Management department. Since these departments generally operate laterally on the organizational chart, not vertically, the safety professional must use their “personal influence” and not their “positional influence”. It is important to recognize the difference between these two types of influence. Personal influence is that level and type of influence that everyone has, to varying degrees, because of the personal and/or business relationship(s) they have developed with other members of the organization. Whereas, positional influence is that level and type of influence someone has because of their position in the organization. An example of positional influence is forcing an employee to wear their safety glasses because you are their boss and you have the ability to terminate their employment if they do not comply. An example of personal influence would be convincing someone to voluntarily wear their safety glasses because of the credibility you have established with that person. While most people understand the difference between these two types of influence from an intellectual standpoint they often fail to use the proper type of influence or think they are using personal influence when they are using positional influence. The incorrect application of influence can lead to feelings of resentment and vindictiveness. This is why using personal influence on the Risk Manager may lead to better working relationships and more trust between the departments. Be aware that the Risk Manager may at first feel suspicious of these actions and be hesitant to provide information or work more closely with the Safety Professional. Suspicions can be minimized and the foundation for a trusting relationship developed by showing what the Safety Department can offer the Risk Management department the foundations for a trusting relationship can be built.

If there is not an existing Risk Management department, then the Safety Professional can begin by speaking more in terms of risk management during meetings with executive management. This will generally lead to more questions by executive management and allow the Safety Professional the opportunity to establish credibility as well as educate executive management about existing or new risks and better ways to address these risks. This will build rapport and increase the level of personal influence the Safety Manager has with executive management.

Conclusion

Safety and Risk Management functions are often at odds with each other within the same organization even though they seek the same results. The inevitable outcome of having two departments with the same goal is either integration of the two departments or elimination of one. Because Safety Professionals are better trained to recognize and eliminate hazards/risk they are the best candidate to lead the organizations new Risk Management/Safety Department. But, Risk Managers typically are in a better position organizationally to assume that role. The Safety Professional must begin now to insinuate themselves into this new role. To do this, they must be able to speak in terms that executive management understands. Meaning they must be able to quantify risk in terms of money and/or potential damage to the organization as a whole, not just injury and illness statistics. To accomplish this they need to learn more about risk management

techniques especially in the area of risk financing. The Safety Professional must also use their personal influence to build better working relationships with executive management teams and/or the current Risk Manager.

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