

Business risk management and the safety professional

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About Human Applications

- We design and deliver IOSH CPD training world-wide
- IOSH Courses include:
 - Business Risk Management
 - Risk Management and Control
 - Undertaking & managing Dynamic Risk Assessments
 - Risk communication (under development)
 - Skills in manual handling
 - Conducting general risk assessments
 - Ergonomics in practice
 - Managing musculoskeletal disorders
 - Conducting DSE risk assessments
 - Conducting manual handling risk assessments
 - Training trainers in manual handling

Describing Risk

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Risk - the big idea

- OSH is a risk-driven discipline
- Risk management is now viewed as the approach to running business
- In some countries, there is a legal requirement to attest to effective risk management
- What is the thinking and how does it impact the OSH professional?

Risk management failures



BP 'ignored safety risks over refinery disaster'

By Russell Herben, Industry Editor
Last updated: 11:08 AM GMT+1

An internal report into a fatal oil refinery explosion accuses BP of ignoring "catastrophic safety risks" and of knowing about "significant safety problems" at another 34 facilities around the world.

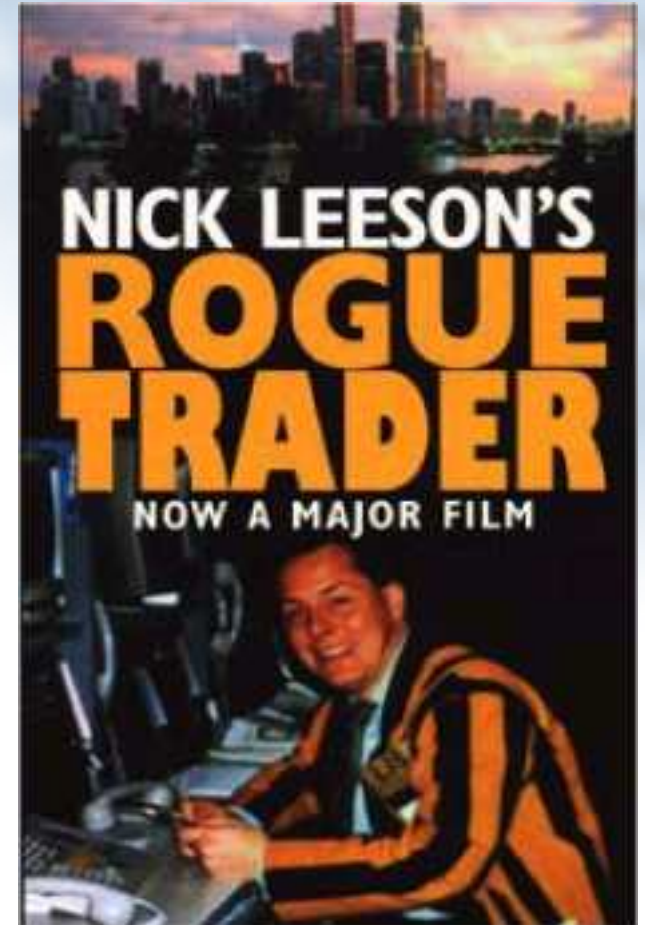
The US Chemical Safety Board (CSB), which publishes the damning findings today, believes that BP may have been aware for years of major problems at its Texas City refinery, which exploded in March last year killing 15 workers and injuring 180.

The report will add weight to demands by a US judge that Lord Browne, the BP chief executive, testify in a federal court, as the company has denied knowing of critical safety concerns before the blast.



Lord Browne: facing demands to testify in a federal court

BP now accepts that there were failings at the Texas facility, and has set aside \$1.6bn (£100m) to compensate victims of what was America's worst industrial accident for a decade. While BP has settled with many families of victims, Eva Rowe, whose parents died, is determined to take BP to court to reveal aspects of the case being kept secret.



Texas City

- An OSH
- March 2005 - 15 die
- Didn't manage risk
- Why on the Board?
- Baker Panel - January 2007
- Endemic failure
- Cost to BP?



Understanding risk

- What is 'risk'?

An accident
Something uncertain
Probability of an undesired event happening
Possible loss
Severity of an undesired event happening

Risk definition

- A predictable event that will effect our organisation's ability to meet its objectives

Risk components

- Objective (strategic; tactical; or personal
 - E.g. a task that we carry out
- Event (something that may occur)
 - E.g. an accident
- Likelihood - why will it happen?
- Impact - what effect will it have?
 - This might be positive or negative

The context

- If we are to evaluate risk, we need a common understanding
- Risk needs a context and an agreed terminology

Risk management process



US approach

- Sarbanes-Oxley Act 2002
- Board of Directors and Audit Committee
 - Mandatory requirement
 - Viewed as very costly
 - At least it prevented companies going into meltdown!



UK approach (non Government)

- Turnbull report:
 - Internal Control: Guidance for Directors on the Combined Code (1999)
 - Revised and reissued in 2005
 - Best practice
 - 2007 Financial Reporting Council - 33% of listed companies fully compliant



European risk management standard

FERMA -
Federation of
European Risk
Management
Associations



International Standards

- Risk management is increasingly a theme in International Standards
- Consider:
 - ISO 9001 - Quality systems
 - ISO 14001; 18001 - environment & OSH
 - ISO 27002 - information security management systems

Modelling risk

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Principles

- If we can measure it, we can manage it
- If we have a single set of rules we can compare
- If we do it well, our business will get better

Defining objectives

- Most organisations have top-level objectives
- Most projects should have clear objectives
- We need to be clear that we understand objectives

Defining stakeholders

- Stakeholders bring risk to organisations
- For each objective, brainstorm stakeholders
 - Who are they?
 - Is it worth considering them?
- Key stakeholders are those with the power to prevent (or, for good risk, allow) an objective to be met

Identifying risk

- Once we agree an objective:
 - Risk is an event that might occur which will have a measurable impact on our objective
- We identify risk in order to rate it
- It is about prioritising limited resource
- We can model this using an X Y Z approach
- X is the event, Y is the likelihood, Z is the impact

Identifying events

- An event is something that relates to the objective
- Typically in OSH terms, it is an accident
- Identify the event you are interested in
- This is the X

Identifying the why

- Why will the event occur?
 - This is the 'likelihood'
- We look for evidence to support the likelihood
- This is the Y

Identifying the impact

- If the event occurs, what will the impact be?
 - We look for evidence to support our estimate of the impact
- This is the Z

Risk grammar

- Describe a risk as:
 - For an objective, describe the risk that X occurs because of Y resulting in Z
- For example:
 - Objective: Ensure OSH of employees
 - The risk that we seriously hurt an employee because we do not provide a safe work environment resulting in a significant compensation claim
 - Objective: Ensure the organisation is financially sound
 - The risk that we overspend because travel and subsistence expenses increase resulting in a budget deficit

The XYZ approach

- The risk is described, it is not evaluated
- X is always an event related to the objective
- Y is an explanation of 'why', only a single 'why' is required, it occurs **before** the X
- Z is an unevaluated 'impact', only a single 'impact' is required, it has to be measurable

Risk rating

- If we can identify likelihood and impact we can rate them
- Once we have defined our event



Impact equivalence

- OSH impact is around injury and death
- Finance is around money
- Reputation damage
- Operational effectiveness
- Quality
- Environmental

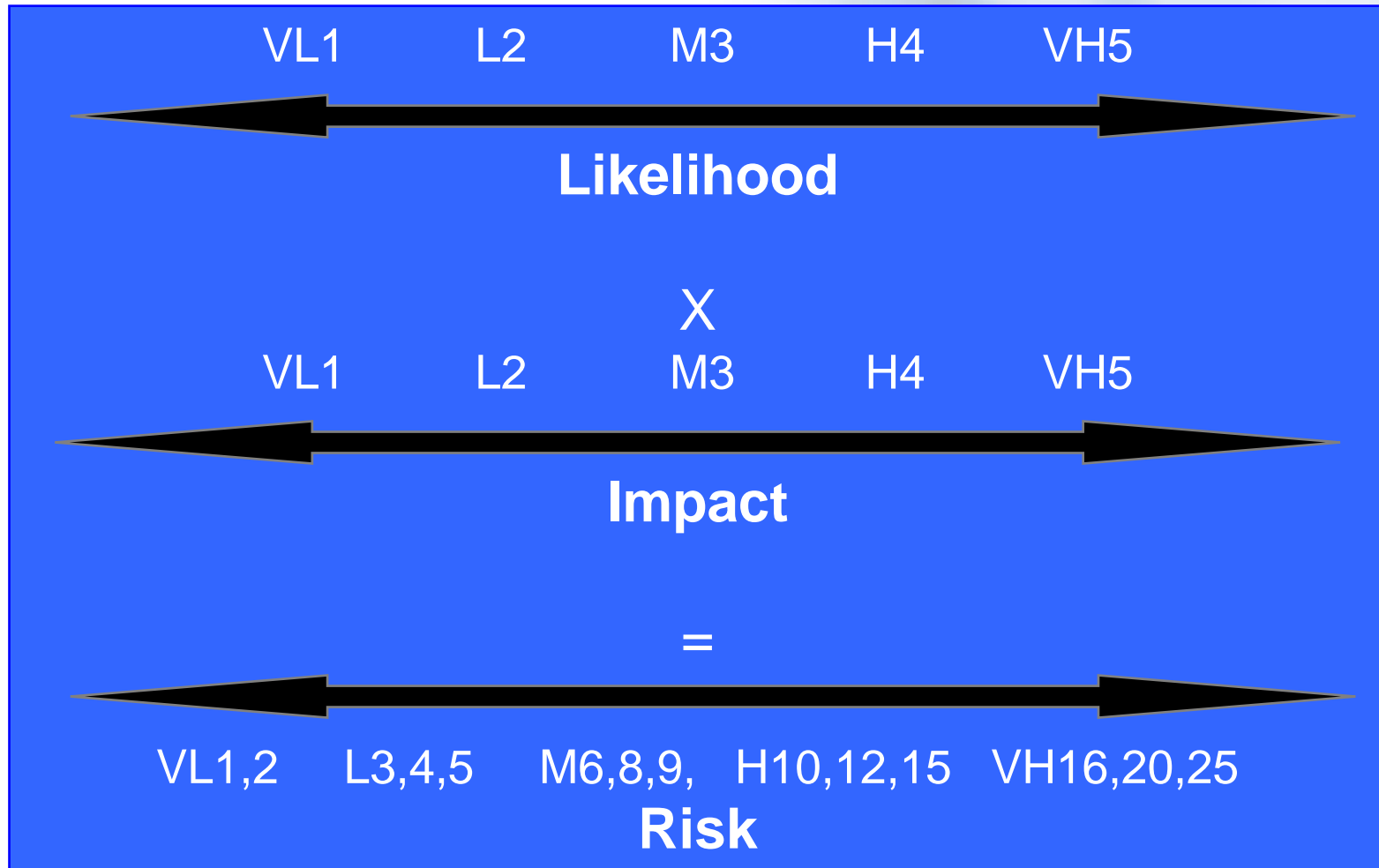
Example

- Very high impact = fatality; >HK\$ 10mi; international media attention; shut down >3days; >10% of product faulty; severe environmental impact

Importance of impact equivalence

- We rate risk to manage it
- Identifying which impact we care most about allows effective prioritisation
- We are NOT saying how much we value reputation, life, etc. just how to focus on the most significant impact

Rating risk - 5 point scale



CSR Example

Corporate Social Responsibility

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Other areas of risk management

- If we care about managing risk, we can apply the principles in lots of different areas
- Consider Corporate Social Responsibility (CSR)
- Many organisations now produce explicit CSR reports
- They manage CSR issues

The aim of CSR

- The philosophy of Corporate Social Responsibility is to achieve a competitive advantage whilst simultaneously benefiting society
- The term triple bottom line (TBL) - John Elkington (1994) 'Towards the sustainable corporation: Win-win-win business strategies for sustainable development'

The Triple Bottom Line (TBL)

- **People**
 - Human capital - how do we treat the people making the profits for us? e.g. Fair Trade® products, ensuring child-labour-free factories in the Far East, etc.
- **Planet**
 - Natural capital - how are we impacting on the environment? Reduction of ecological footprint by considering the lifecycle of the product. e.g. Apple replacing plastics with aluminium and glass in some of their ranges to make them more recyclable
- **Profit**
 - Finance - the lasting economic impact the organisation has on its economic environment. i.e. it is not simply the profit of the organisation, rather it is the overall economic impact on the host society e.g. employing local workers to keep the area buoyant

The UN Global Compact (1)

- The UN global compact is an entirely voluntary initiative that provides a framework organisations can sign-up to in order to demonstrate their strategic alignment to 10 universally accepted principles:
 - Human rights
 1. Businesses should support and respect the protection of internationally proclaimed human rights, and
 2. make sure that they are not complicit in human rights abuses
 - Labour Standards
 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
 4. the elimination of all forms of forced and compulsory labour, and
 5. the effective abolition of child labour, and
 6. the elimination of discrimination in respect of employment and occupation

The UN Global Compact (2)

- Environment
 7. Businesses should support a precautionary approach to environmental challenges
 8. undertake initiatives to promote greater environmental responsibility, and
 9. encourage the development and diffusion of environmentally friendly technologies
- Anti-corruption
 10. Businesses should work against corruption in all its forms, including extortion and bribery

<http://www.unglobalcompact.org>

Applying the X Y Z model

- CSR management becomes an objective
- We identify what events we care about e.g. we use child labour
- Identify why (the likelihood) because it is cheaper
- Identify the impact - we loose our reputation
- Consider Nike

QuickTime?and a
decompressor
are needed to see this picture.

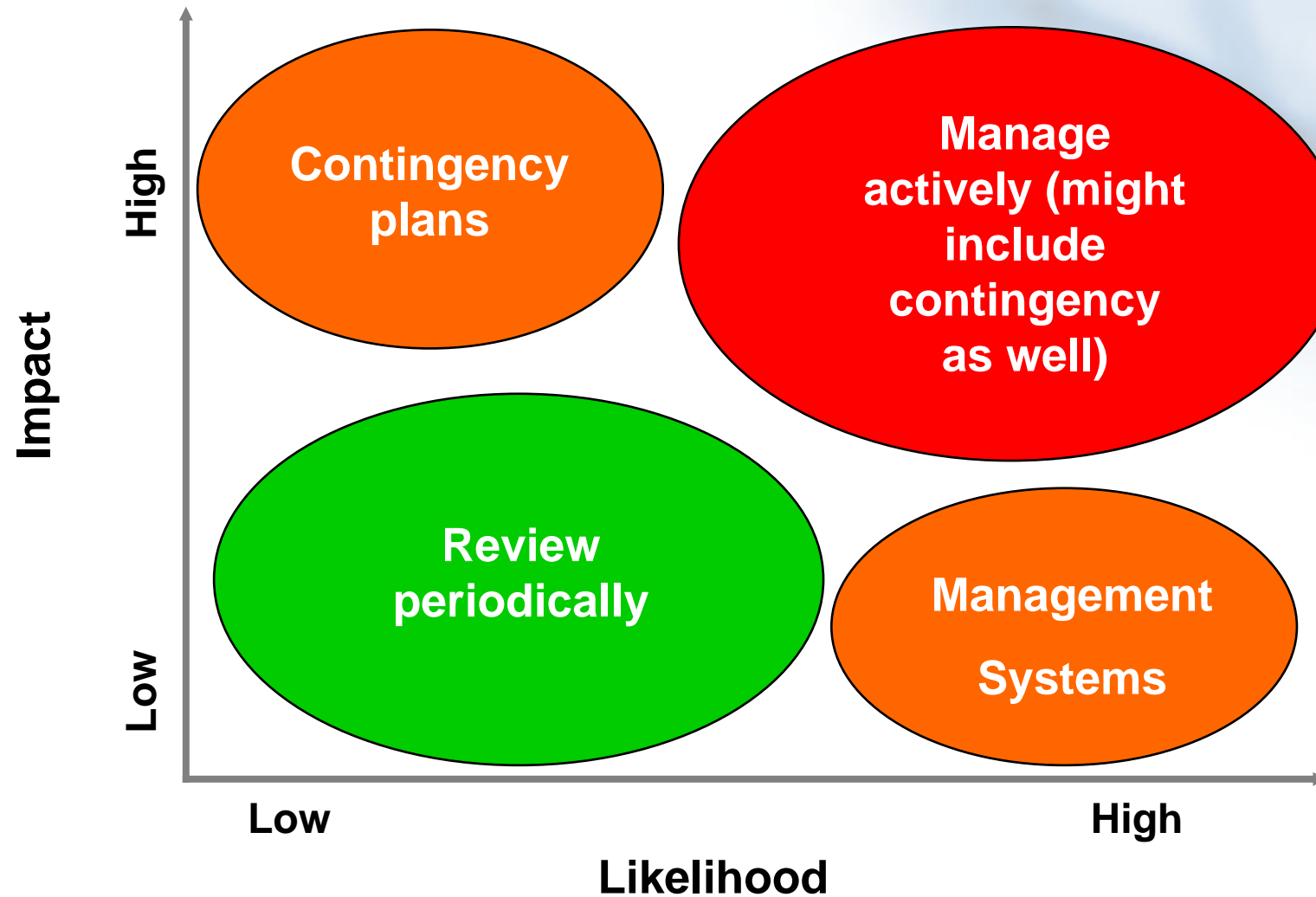
Risk Management 'Systems'

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Risk and OSH

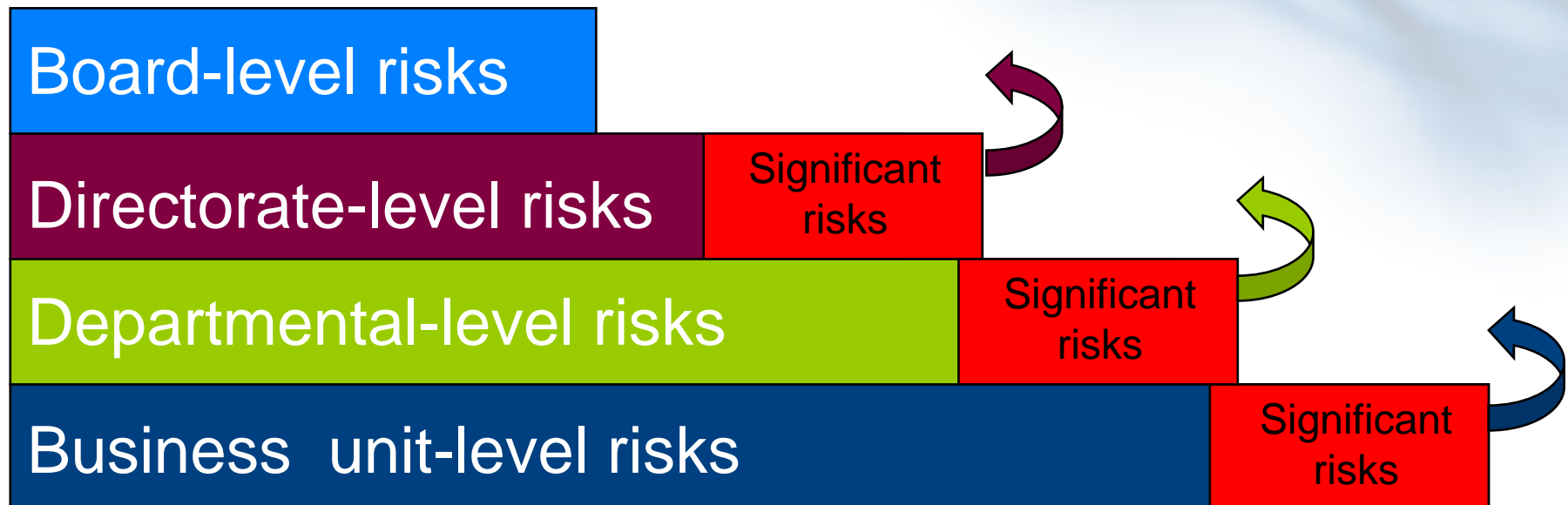
- OSH is an example of a risk type the organisation should be managing
- Managers should be managing **risk** not **risks**
- OSH professionals should be feeding OSH risk into the corporate risk structure
- It's about communication and making the business case

Managing risk in practice



Risk registers

The board don't manage everybody else's risk profile!



Risk management responsibilities



Risk identification & evaluation

Local risk awareness drives all of the above. Without it how can the organisation be sure that policy and procedures reflect the reality of what actually happens?

The 'Top X' principle

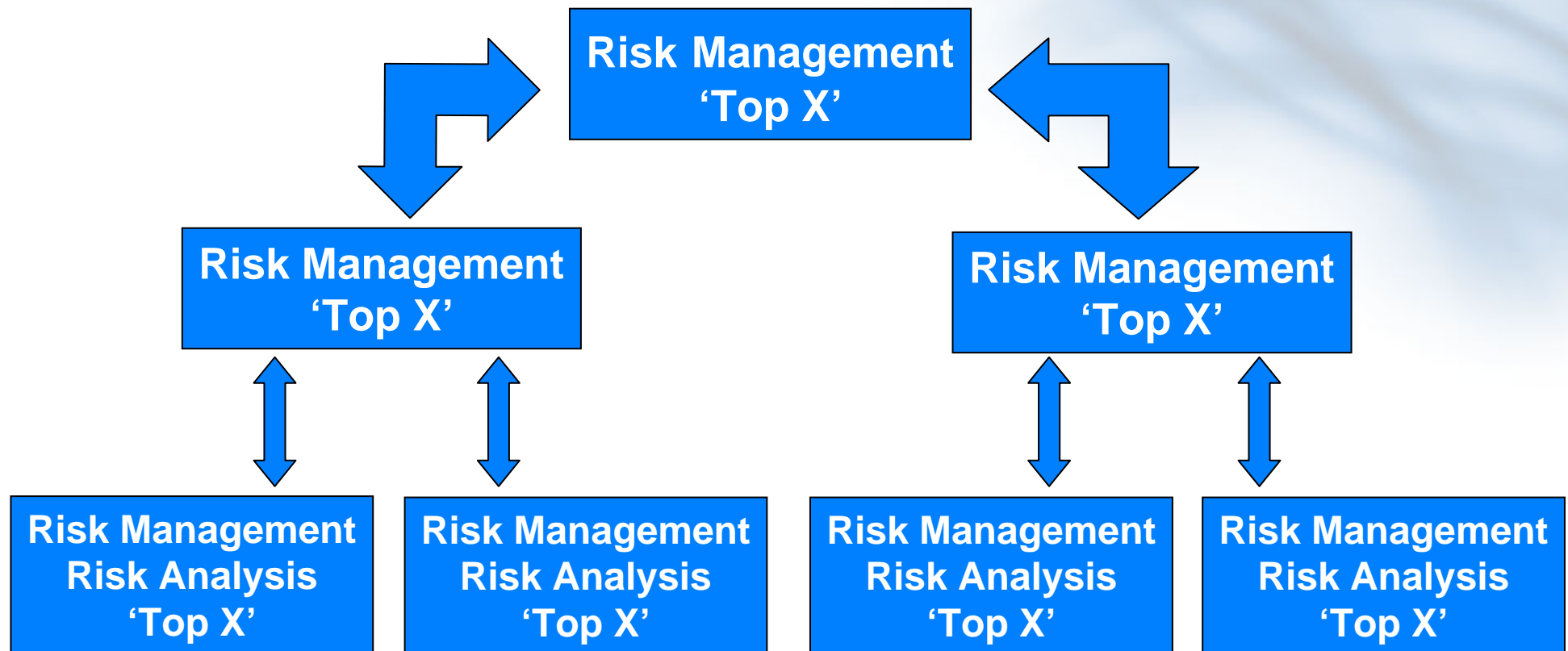
- An effective risk management 'system'
 - Report, regularly, on the 'Top X' risks at your level
(in this operational period; show that you've looked wider than just these)
 - Show that there's quality to the list
(show that it's the 'right' list; demonstrate competence and quality control)
 - Show, later, that there is a management **ACTION PLAN** for dealing with the 'Top X' risks

The 'Top X' principle

- Show that the action plan has changed for the better over time (show that actions continue)
- Show that there is both pro-active and re-active systems in place
- Show that this process takes place throughout all parts of the organisation - at all levels
- The organisation is now managing risk!

The 'Top X' principle in practice

The right priorities at all levels



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