



Business risk management



Business risk management

getting health and safety firmly on the agenda

Increasingly, organisations are taking a holistic approach to the management of risk – representing both a challenge and an opportunity for occupational safety and health practitioners. Those unfamiliar with the principles and language of business risk management may become marginalised and left behind. Those who can understand and apply its principles – and can communicate with other business disciplines – have the opportunity to be more effective. Well informed occupational safety and health practitioners are better able to make the case for the consideration of health and safety risks within the wider context of business risk.

This document aims to help health and safety practitioners to understand the concept of business risk management and where the management of health and safety risks sits within the business risk framework. It also encourages practitioners to use this knowledge to influence the decision-making process.

1. Overview

Business risk management (BRM) is a strategic process which aids and supports decision-making at both strategic and operational levels within an organisation.

An improved understanding and management of all risks likely to affect the organisation will lead to better performance and competitive advantage, especially when hazards and threats are identified, and the risks assessed and controlled, in the same manner as opportunities and rewards.

BRM may therefore be defined as the eradication or minimisation of the adverse effects of pure and speculative risks to which an organisation is exposed.

Note: 'Pure' risks can result only in preservation of the status quo or loss to the organisation – for example, injury, disease, damage or death. 'Speculative' risks may result in either gain or loss – as in the phrase 'speculate to accumulate'. Hence, BRM is used within organisations to:

- consider the impacts of foreseeable significant risky events on the performance of the organisation
- respond appropriately to internal and external changes in risk perception
- devise strategic options for eliminating or controlling all significant risks and their impacts
- link these options to the general decision and control framework used by the organisation.

The requirement for a BRM approach is highlighted in the Turnbull Committee's guidance¹, which requires UK stock market-listed organisations to identify, record and manage their significant risks in a suitable manner. Systems for regular review of risks and review/amendment of internal controls must be in place, together with statements in company annual reports confirming the effectiveness of these systems.

Occupational safety and health hazards and controls are included where they represent significant, operational and compliance risks within the scope of Turnbull – and often such risks are associated with wider financial and reputational losses, for example, those sustained by BNFL, Railtrack and Exxon. Also, under the Statement of Recommended Practice (SORP), trustees of charities must state the controls in place to minimise operational and financial risks.

Effective internal controls safeguard stakeholder/shareholder investment and organisation assets, especially when they are risk-based and embedded into the organisation's management systems – 'built in', not 'bolted on'. The growth of socially responsible investing indices (eg FTSE4Good) allows potential investors to choose organisations that demonstrate good corporate social responsibility² and this includes their health and safety and environmental performance.

“consideration of health and safety risks within the wider context of business risk”

“supports decision-making at strategic and operational levels”

2. IOSH and the holistic approach to BRM

The current IOSH Corporate Plan (section 4.2)³ shows where health and safety management sits within overall BRM. Figure 1 illustrates this framework.

The model highlights:

- the historical development of BRM
- the 'speculative' and 'pure' risks within overall organisational management – corporate governance
- the fluidity of elements of BRM
- that health and safety and environment are integral to BRM
- the role for health, safety and environment professionals in BRM.

The model clearly demonstrates that health and safety management is an integral part of BRM. The model further indicates that business risks should be treated as a totality

rather than on a piecemeal or compartmentalised basis. It is vitally important – using the holistic approach – to recognise the interrelationships and impacts, both positive and negative, of the various types of pure and speculative risk. The management of health and safety risks should never be treated in isolation because of the impact that poor health and safety management can have on other business risks, such as brand/reputation, insurance, business continuity and financial 'wellbeing'. This is one reason why some organisations integrate their health and safety management systems with those used to manage environmental impacts, or quality, which are other key factors affecting the reputation, and thus the ultimate success, of the organisation.

The bringing together of insurance (risk transfer) and loss control (risk reduction) was the final stage in the development of holistic BRM and clearly indicates the value and positioning of health and safety professionals.

“health and safety management is an integral part of BRM”

“key factors affecting the reputation, and thus the ultimate success, of the organisation”

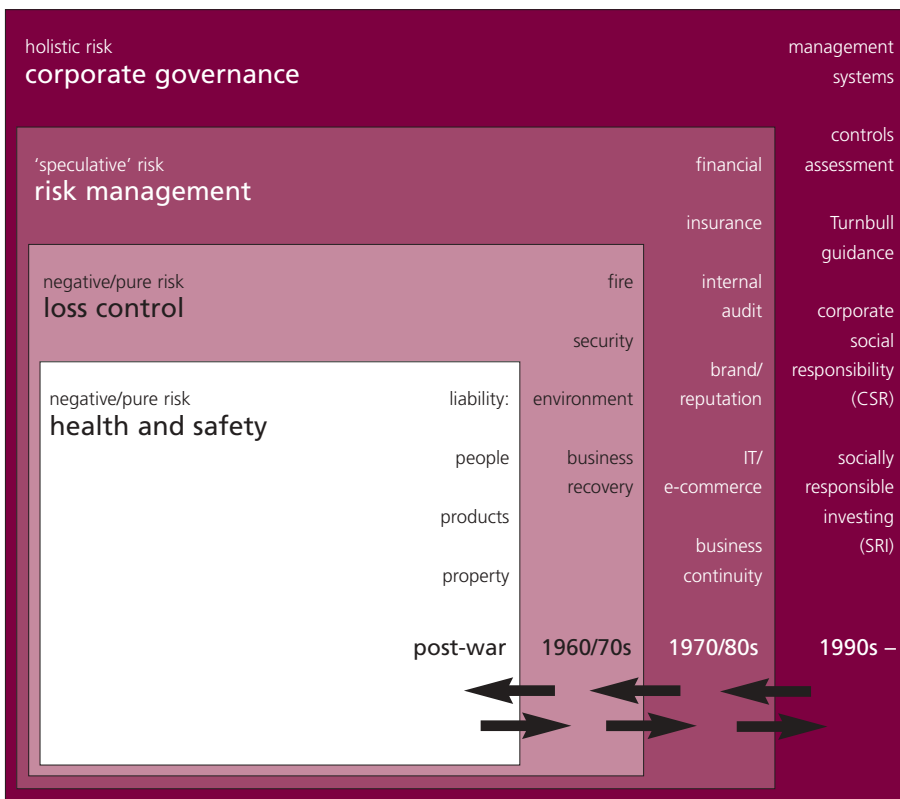


Figure 1 OSH and BRM³

3. Key elements of the BRM process

The BRM process comprises identification, evaluation and control, plus the monitoring/audit/review stages common to all effective management systems.

Risk identification (typically referred to in the health and safety context as hazard identification) may be achieved by a multiplicity of techniques, most of which are well known to the health and safety profession, for example: application of standards^{4,5}; checklists/inspections/audits; workforce involvement and consultation; accident/loss investigations; task analysis; scenario planning; and stakeholder consultation.

Organisations with mature health and safety management, but limited experience of wider BRM issues, can adapt their existing health and safety processes and recording format to cover other key risks – an example of the integration noted in section 2. Health and safety professionals can contribute to techniques such as 'SWOT' (strengths, weaknesses, opportunities and threats) and 'PEST' (political, economical, social and technological) analysis; Porter's Five Forces; and the European Foundation for Quality Management model, which business managers may already use.

Risk evaluation (or measurement) may be based on economic, social and legal considerations, together with the probability and frequency of each occurrence and the severity of the outcome of the event being assessed.

Risk control strategies may be classed into four main areas: avoidance, retention, transfer and reduction:

- **risk avoidance** involves the conscious decision by an organisation to avoid a particular risk by discontinuing the operation producing that risk.
- **risk retention** involves the risk being managed within the organisation, with any loss arising from poor risk management being totally financed from within. Note: this option may be followed with or without knowledge – it is what happens if risks are not fully identified.
- **risk transfer** involves the legal assignment of the costs of certain potential losses from one party to another. The most common way of effecting such transfer is by insurance, however, other forms of contractual risk transfer include sales contracts and employment of third parties (eg contractors).
- **risk reduction** involves the ongoing management of risk within the organisation via the implementation of a programme designed to protect the organisation's assets from wastages caused by accidental loss. The component parts of such a loss control programme should include areas such as: occupational safety/health/hygiene; environmental protection; damage control; transport risk management; fire prevention and control; security and anti-fraud measures; IT systems protection; personnel and competence retention; product or service safety/quality assurance; public safety/liability; and business continuity.

Monitoring/audit/review – the risk controls should be monitored for their effectiveness; the identification and evaluation processes should be reviewed regularly and whenever significant change occurs; and the BRM process should be audited periodically to ensure weaknesses are identified/addressed and continual improvement achieved.

“avoidance, retention, transfer and reduction”

“ensure weaknesses are identified/addressed and continual improvement achieved”

4. IOSH position

IOSH believes it is important for OSH professionals to build links and to co-operate with others involved in the BRM process. As noted in section 3, this may include using tools and competences originally developed

to support good OSH management, adapted to add value in the wider BRM context. IOSH members are encouraged to develop an understanding of the language and tools used by business managers and to take every opportunity to ensure that significant OSH and environmental risks are firmly on the BRM agenda.

“ensure that significant OSH and environmental risks are firmly on the BRM agenda”

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References

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3. *IOSH Corporate Plan 2000–2004*, 2000, Institution of Occupational Safety and Health, Leicester, UK.
4. *Risk management*, AS/NZS 4360, 1999, Standards Association of Australia, Strathfield NSW, Australia.
5. *Worth the risk – improving risk management in local government*, 2001, Audit Commission, London, UK.

Further reading

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Safety at work (5th edition), 1999, Ridley J and Channing J (eds), ‘Principles of the management of risk’, Bamber L, Butterworth-Heinemann, Oxford, UK.

This document is available at www.iosh.co.uk/technical. Comments should be sent to IOSH's Head of Technical Affairs at the address overleaf or emailed to richard.jones@iosh.co.uk.

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