

Business risk management

Getting health and safety
firmly on the agenda



direction

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IOSH publishes a two-tier range of free technical guidance. Our guidance literature is designed to support and inform members and motivate and influence health and safety stakeholders.

Direct info

Brief, focused information on health and safety topics, typically operation- or sector-specific.

Direction

Strategic corporate guidance on health and safety issues.

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Business risk management – getting health and safety firmly on the agenda

Increasingly, organisations are taking a holistic approach to managing risk and this represents both a challenge and an opportunity for health and safety professionals. If you're unfamiliar with the principles and language of business risk management (BRM), you may be marginalised and left behind. If you understand and apply its principles – and can communicate with other business disciplines – you have the opportunity to be more effective. Well-informed health and safety professionals are more able to make the case for considering health and safety risks within the wider context of business risk.

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

Business risk management can be downloaded from www.iosh.co.uk/businessrisk. If you have any comments, please contact Dr Luise Vassie, IOSH Executive Director – Policy, at luise.vassie@iosh.co.uk.

1 Overview

Business risk management (BRM) is a strategic process which helps and supports decision making at both strategic and operational levels in an organisation. 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 way as for 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 that '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 in organisations to:

- consider the possible impacts of foreseeable significant risks on the organisation's performance
- 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 guidance,¹ which requires organisations listed on the UK stock market to identify, record and manage their significant risks in a suitable manner. Systems for regular review of risks and review or amendment of internal controls must be in place, together with statements in company annual reports confirming the effectiveness of these systems.

Health and safety hazards and controls are included where they represent significant operational and compliance risks within the scope of Turnbull. Often such risks are associated with wider financial and reputational losses, such as those sustained by BNFL, Railtrack and BP. Also, under the Statement of Recommended Practice (SORP),² trustees of charities must state the controls in place to minimise operational and financial risks.

Effective internal controls safeguard stakeholder and shareholder investment and organisational assets, especially when they are risk-based and embedded into the organisation's management systems – in other words, 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 responsibility³ and this includes their health and safety and environmental performance.

If companies wish to benchmark their performance, there are two useful free tools available. CHASPI⁴ is suitable for use by all large organisations (over 250 employees) that operate in the UK, while HSPI⁵ is aimed at small and medium-sized enterprises.

In essence, a BRM process therefore highlights the importance of risk assessment and control to the board and senior management of organisations, and ensures that both cost and risk are taken into account when management decisions are taken and implemented. Making sure that all significant corporate risks, including health and safety risks, are effectively managed is an essential part of the role of directors or their equivalents.

2 Health and safety and the holistic approach to BRM

IOSH's vision is 'a world of work which is safe, healthy and sustainable' and its mission clearly states that it champions 'pragmatic, risk management, based on professional advice'.

Figure 1 shows how IOSH's vision and mission supports the BRM process and demonstrates how it's evolved along with IOSH since 1945.

The model highlights:

- the historical development of BRM
- the 'speculative' and 'pure' risks in 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 also indicates that business risks should be treated as a whole rather than on a piecemeal or compartmentalised basis. It's 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. Managing health and safety risks should never be undertaken in isolation, because poor health and safety management can have a negative impact 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 evolution of holistic BRM has seen the bringing together of loss control (risk reduction), insurance (risk transfer), good corporate governance, and formal integration of systems. This clearly demonstrates the value of health and safety professionals making functional alliances with other departments.

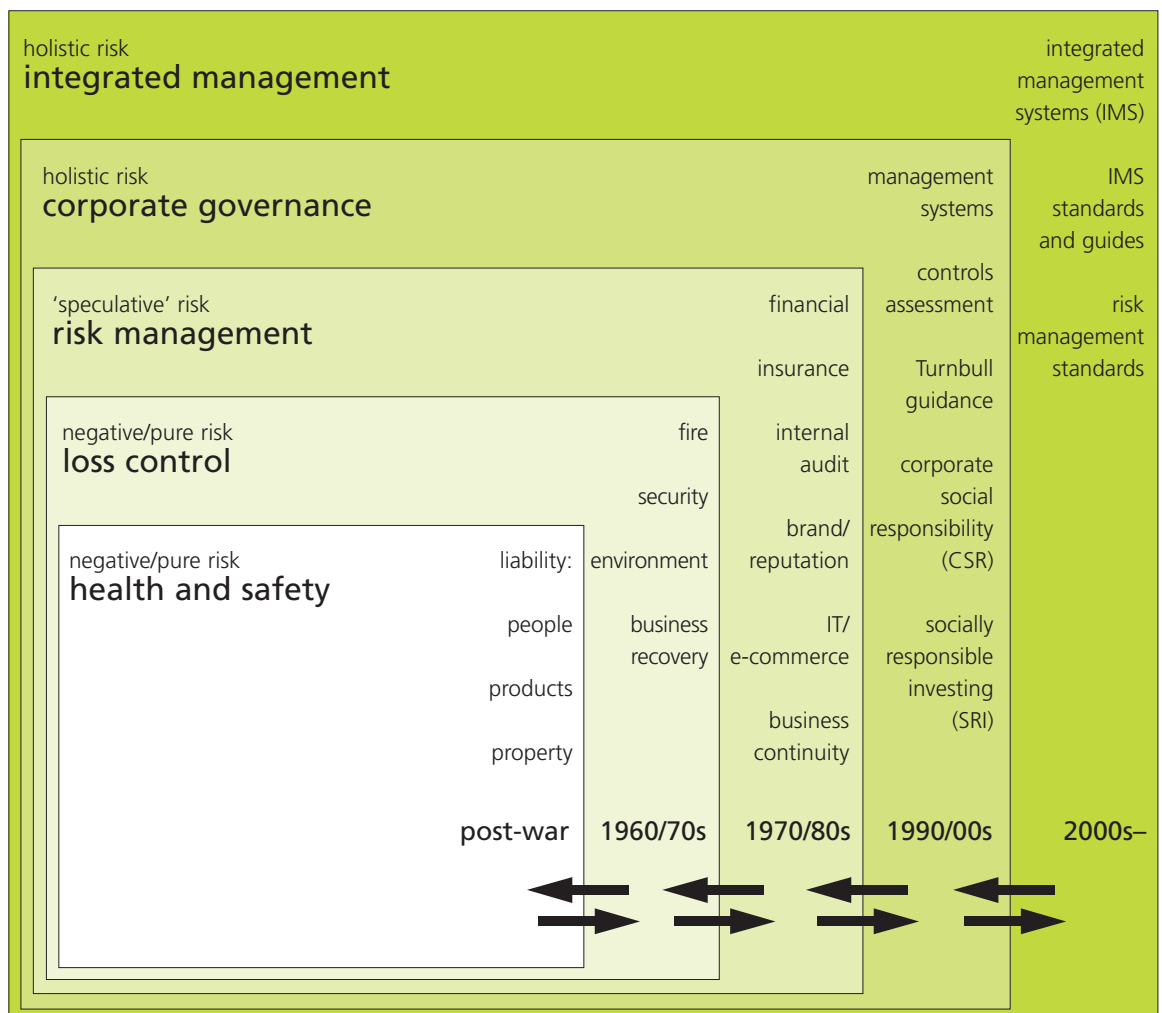


Figure 1
The development
of BRM since
1945

3 Key elements of the BRM process

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

There are many techniques available for risk identification (typically referred to in the health and safety context as hazard identification), most of which are well known to the health and safety profession, for example:

- application of standards^{6,7}
- checklists, inspections and audits
- workforce involvement and consultation
- accident and loss investigations
- task analysis
- scenario planning
- 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 – this is an example of the integration described in section 2. Health and safety professionals can contribute to techniques such as SWOT⁸ (strengths, weaknesses, opportunities, threats) and PESTLE⁹ (political, economic, sociological, technological, legal, environmental) analysis, Porter's Five Forces¹⁰ and the European Foundation for Quality Management model,¹¹ which your organisation may already be using.

Risk evaluation (or measurement) can 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:

- Risk avoidance involves the conscious decision by an organisation to avoid a particular risk by discontinuing the operation producing that risk.
- Risk retention involves managing the risk within the organisation, with any loss arising from poor risk management being totally financed from within. This option may be followed consciously or unconsciously – it's what happens if risks aren't 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 doing this is by insurance, but other forms of contractual risk transfer include sales contracts and employing third parties, eg contractors.

- Risk reduction involves the ongoing management of risk in the organisation by implementing a programme designed to protect the organisation's assets from wastages caused by accidental loss. The components of such a loss control programme should include:
 - occupational safety, health and hygiene
 - environmental protection
 - damage control
 - transport risk management
 - fire prevention and control
 - security, anti-fraud and anti-terrorism measures
 - IT systems protection
 - personnel and competence retention
 - product or service safety and quality assurance
 - public safety and liability
 - business continuity.

During the later monitoring, audit and review processes:

- the risk controls should be monitored for their effectiveness
- the identification and evaluation processes should be reviewed regularly and whenever significant change occurs
- the BRM process should be audited periodically to make sure weaknesses are identified and addressed and to enable continual improvement.

4 IOSH's position

IOSH believes it's important for health and safety 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 health and safety management, adapted to add value in the wider BRM context. We encourage IOSH members to develop an understanding of the language and tools used by business managers and to take every opportunity to make sure that significant health and safety and environmental risks are firmly on their organisation's BRM agenda.

More information

References

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- 2 Charity Commission for England and Wales. *Accounting and reporting by charities: statement of recommended practice* (revised edition). London: Charity Commission, 2005. Available online at www.charity-commission.gov.uk/Publications/cc15b.aspx.
- 3 *Corporate social responsibility and occupational safety and health* (Factsheet 54). Bilbao: European Agency for Safety and Health at Work, 2004. Available online at <http://osha.europa.eu/en/publications/factsheets/54>.
- 4 Health and Safety Executive. *Corporate Health and Safety Performance Index (CHASPI)*. www.chaspi.info-exchange.com.
- 5 Business Link. *Health and Safety Performance Indicator (HSPI)*. www.businesslink.gov.uk/bdotg/action/haspi.
- 6 Standards Australia. *Risk management: principles and guidelines on implementation*, AS/NZS ISO 31000:2009. Standards Australia, 2009. <http://sherq.org/31000.pdf>.
- 7 Audit Commission. *Worth the risk – improving risk management in local government*. Wetherby: Audit Commission Publications, 2001.
- 8 SWOT analysis: www.ifm.eng.cam.ac.uk/dstools/paradigm/swot.html.
- 9 PESTLE analysis: www.cipd.co.uk/subjects/corpstrtg/general/pestle-analysis.htm.
- 10 Porter's Five Forces: www.ifm.eng.cam.ac.uk/dstools/paradigm/5force.html.
- 11 European Foundation for Management model: www.efqm.org/en.

Further reading

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- Stevens J, Bamber L and Cotena E. *Managing risk: the health and safety contribution*. Bloomsbury Professional, 2005.

Free IOSH guides

These free guidance documents can be downloaded from IOSH's website:

- *Joined-up working: an introduction to integrated management systems*, www.iosh.co.uk/joinedup
- *Making a difference: a basic guide to environmental management for OSH practitioners*, www.iosh.co.uk/enviromgnt
- *Promoting a positive culture: a guide to health and safety culture*, www.iosh.co.uk/positiveculture
- *Reporting performance: guidance on including health and safety performance in annual reports*, www.iosh.co.uk/performance
- *Systems in focus: guidance on occupational safety and health management systems*, www.iosh.co.uk/systems.

Also see the Risk Assessment Routefinder at www.ioshroutefinder.co.uk.

IOSH courses

We also run two CPD courses for health and safety professionals who want to improve their skills in BRM:

- Business risk management: a practical perspective (two days)
- Planning for business continuity (one day)

For information on these and other IOSH courses, see www.iosh.co.uk/professional or phone +44 (0)116 257 3197.

