19th Annual ASSE Symposium
Wednesday, March 21st, 2018 Rabobank Convention Center, Bakersfield, CA

Topic Title: Risk Management
A 60-minute presentation including Q&A – 2:30 to 3:30 pm
How Understanding Risk Management Will Improve Your Safety Performance Today — and Enhance Your Career "Tomorrow"

Three “Learning Points” (educational objectives):

(1) **What a Risk Management System is** and how Safety, Health, and Environmental best practices fit into such a system in your company.

(2) **How an understanding of a Risk Management System** and its multiple processes can improve your performance in safety and enhance your company’s safety culture.

(3) **How you can use an understanding of Risk Management** to advance your career.
**Definition of risk** — “uncertainty as to outcome”. If you know the outcome there is no risk.

**Definition of management** — There are lots of definitions “all over the ballpark” but my favorite is:

- planning, organizing, directing, and controlling outcomes.

So, risk management is:

- planning,
- organizing,
- directing, and controlling . . .
  . . . the risks facing your organization.

**Important:** Remember the word “controlling” as that’s where safety practices come into the process.
There are two levels of risk management:

(1) **Traditional Risk Management** – where the risks addressed can produce only a loss, e.g., fire, liability, cyber-crime, etc. These risks are called “pure” risks – or “static” risks.

(2) **Enterprise Risk Management** – where the risks addressed can produce either a loss OR a profit, e.g., marketing in general or more specifically marketing farm products and oil and gas sales. These risks are called “speculative” risks – or “dynamic” risks.

A third type of risk management is used in the investment world of hedging and other esoteric financial areas -- and not applicable to us at all.

There are three overall processes within any risk management system:

(1) **Risk ID and Measurement** – property values, income and extra expense projections, liability limits, contractual risk transfers, etc.

(2) **Risk Control** – safety, security, fire prevention, etc.

(3) **Risk Finance** – non-insurance risk transfers by contract plus risk transfers by insurance – in multiple forms – plus risk assumption.
Risk Identification and Measurement includes site inspections, operations observations, process maps, property appraisals, contract reviews, etc.

Risk Control is where safety, health, and environmental risks are included in the system — plus lots of other risks such as security, fire prevention, cyber-crime prevention, crisis management, disaster planning, business continuity planning — and more!

Risk Finance includes conventional commercial insurance — but only after all other ART tools (Alternative Risk Transfers) have been considered — including the very real option of assuming certain risks and paying for any such losses from operating revenue or reserves set aside for funding uninsured losses.
Other ARTs are:

- formal self-insurance;
- high deductible plans;
- retrospective rating plans;
- risk transfers to others by contract — other than insurance contracts; and
- other alternatives to commercial insurance before any insurance is purchased.

That’s the view from 30,000 feet. Now the question is: Why should you care? You’re no doubt “up to your ears” in safety issues, right?

Here’s one major reason:

- Too many local companies — and lots outside of Kern County — operate in what we call “silos” — you know, those tall, round storage structures on farms where grain and silage are stored? The problem is the people in one silo never talk to — or share information or goals — with anyone in another silo. What’s needed is cross-functional collaboration and communication.
This happens in all levels of an organization. In risk management, all essential bases are usually covered but all too often in a series of silos:

(1) safety, of course, is one — then
(2) Insurance — with workers’ compensation frequently in still another silo — usually Human Resources;
(3) contract drafting in the legal department;
(4) security in the Finance silo;
(5) cyber-liability in IT; and
(6) who knows where fire prevention, product liability, crisis management, disaster planning, and business continuity end up?

What’s all too often missing? Someone with the formal title of Risk Manager to bring all these separate elements together for better current and long-term performance results.

Why is this happening in so many cases?

First, let me say that many local companies DO have a Risk Manager as either a primary or collateral duty. Yet they are almost the exception, not the rule. Even as a collateral duty, it’s much better than no Risk Manager at all.

So, as we do in both risk management and quality management, what is the root cause of this anomaly?
The root cause is found all-too-often in a company’s strategic plan — assuming management does indeed have a strategic plan. If they do engage in strategic planning, chances are good they conducted a SWOT analysis before drafting their long-term strategic goals.

**SWOT** is an acronym for Strengths, Weaknesses, Opportunities, and Threats. It really helps set the stage for strategic and operational planning. However, if any reference to risk management is absent, there’s a problem.

This is important because of an iron rule in management and leadership —

- **as form follows function, structure follows strategy**.
If risk management isn’t on a company’s radar screen, no structure -- or no over-arching position -- will follow.

So, if your company has no one in this role, this can become your opportunity to “lead from the bottom up” rather than “top down.” We’ll talk more about this in the third segment. But for now, we need to explore the second segment —

- How you can improve your safety performance through a better understanding of how risk management works?

First, if you have and understand this broader view, you’ll be more effective in working with others — whether it’s insurance people (or CalOSHA inspectors) or legal staff who need good evidence in liability situations-- or working with others to create or improve a disaster or business continuity plan to mention but a few.

Second, although safety, per se, has been expanded to include environmental and health risks, you may see other opportunities to be proactive in other areas such as security, fire prevention, bomb threats, active shooters, kidnapping and hostage situations — and the list goes on and on. Do you know what to do in a domestic situation — or when a fired employee returns to take revenge?

These are many of the risks addressed by someone with an overall risk management perspective — risks that may or may not be addressed in advance in a more limited safety role. We see these kinds of events reported in the media all too frequently these days.

None of this is rocket science — each is simply part of an overall risk management system that includes not only risk control but also risk identification — especially where upper management completely missed it!
I’m not suggesting that a Risk Manager needs to be an attorney, a CPA, and an insurance broker combined — all in addition to a safety professional. What I’m saying is you need to be part of a Risk Management team — and maybe its leader with that title — to get everyone out of their personal silo and focused together on all risk management elements AND to keep your company’s TCoR – Total Cost of Risk -- continually trending downward.

**Total Cost of Risk** includes insurance premiums paid, of course, but much more. For example:

- **Uninsured losses paid** — no one can insure against EVERY risk
- **Deductibles and self-insured retention’s paid**
- **Costs for fire prevention** — like a fire suppression or sprinkler systems
- **Costs incurred for safety**
- **Costs for security and cyber-crime prevention**
- **Legal defense costs for uninsured liability claims**
- **Legal fees for drafting hold harmless clauses in contracts**
- **Internal administrative costs**
- **Last and never least — insurance premiums.**

**The key is to track these numbers from year to year** — starting five years ago or so. The data are easy to reconstruct for each past year from your company’s general ledger accounts.
Then take these raw numbers for each year, divide each year by the number of employees during each year to adjust for year to year variations in staff. Still another calculation is needed based on TCoR per thousand or per hundred-thousand gross revenue.

Then all three raw numbers need to be converted to a histogram or other type of graph, so trending will be clearly discernible from year to year thereafter.

The use of TCoR serves a very important purpose. It changes the focus from everyone’s own silo to what really matters — all elements of a Risk Management system!

By taking an overall risk management view in your work as a safety professional, you'll stand out from the crowd. If you proactively begin to talk in terms of your company’s overall need to bring all elements of risk management together, you may find yourself on a new career path leading to a higher level within your organization.

The Balanced Score Card (BSC) is another method of tracking how well your company is doing in managing risks. It’s used all over the world by most larger companies — plus even lots of smaller organizations. However, most small to medium size companies — and probably a few large companies — aren’t aware of this leadership and management tool. Most in management effectively monitor insurance premiums paid from year to year — and that’s good, of course, yet it’s usually less than half of the overall costs that SHOULD be tracked.
You can also demonstrate your value to your senior people by suggesting that you should be using the BSC at the safety and risk management level — but also the senior executives of your company would benefit greatly by using the BSC at their level for your company’s overall organization.

Your use of this leadership tool at the safety and/or risk management level can serve as a pilot and real-world study of its effectiveness and value at your level to illustrate to your senior executives how it can be of value to them for use at their level — whether they are leading only a branch operation or your entire company.

A copy of the BSC is in your handouts. One is for risk management operations. On the flip side is an example of a BSC for an overall organization.

These examples were created on Excel — but each can be in any format. The format can be whatever you want it to be. It’s the content that must meet certain critical standards.

These standards – or elements of the BSC -- are:

1. **mission statement** — the purpose of your business;

2. **vision statement** — what you want your business to “look like” in 3-5 years;

3. **values statement** — the personal and organizational ethical and moral values that under-gird your mission and vision — and all you do;

4. **long-term strategic goals** to accomplish your mission and vision; and

5. **annual operational objectives** to accomplish your strategic goals.

It’s important to understand that all these elements are the same result of any strategic planning process. If your company already has a strategic plan, all but perhaps the operational objectives should be readily available
to you. If so, you can add the operational objectives for safety specifically - - or for risk management overall. Yet they may be in the plan, too. If your senior execs see how well it works at your level, they should be motivated to use it at their overall level.

**One point to keep in mind is that everything included in the BSC** tells your organization WHAT is targeted to be accomplished. It doesn’t say anything about HOW to get the job done. The HOW is addressed in supplemental Action Plans — one for each operational objective.

**Each Action Plan is usually drafted — not by senior executives** — but rather by those charged with accomplishment of certain operational objectives. The Action Plan tells WHO will do WHAT by WHEN and, if a budget is needed, for HOW MUCH. Obviously, each Action Plan needs to be approved by an upper level before it is implemented -- and any needed budget funded.

Another important planning standard is that each Operational Objective must be SMART. This is an acronym for Specific, Measurable, Achievable, Relevant, and Time-bound.

**What gets missed too often** is the “M” of SMART — Measurement.

Measurements help define success and facilitate the next supplement to the BSC — what is called a “dashboard.” Like the dashboard on your car, it helps everyone better understand what direction you’re headed, how fast you’re going, what is your destination or target — and how far you are from getting there.

**For example, CSUB has developed excellent strategic goals and operational objectives for the university.** In a study we completed for the university’s School of Business & Public Administration, we wanted to determine the extent to which BPA’s goals and objectives are aligned with
those of the overall university. Among other things, we found that although BPA’s objectives are each measurable, NONE of those of the university are!

**A missed opportunity** for the university to define its future – and to monitor its performance over time. Perhaps the soon-to-be-selected new president will recognize this deficiency and have his planning team factor in measurements.

**Your proactive suggestion of these ideas and tools to your senior management** should be viewed in very positive terms as continuous process improvement — a key element of Lean Six Sigma that most managements practice to some degree.

**Doing so should differentiate you** from others at your level -- and position you for promotion and advancement.

**So, that’s what Risk Management is all about** — and how you can use these principles, best practices and tools not only to improve your role as a safety professional but also position you for advancement within your organization.

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