THE RISK MANAGEMENT DEPARTMENT

Background

In 1946, shortly after the end of World War II, Cooper Manufacturing Company was created. The company manufactured small appliances for the home. By 2010, Cooper Manufacturing had more than thirty manufacturing plants, all located in the United States. The business now included both small and large household appliances. Almost all of its growth came from acquisitions that were paid for out of cash flow and borrowing from the financial markets.

Cooper's strategic plan called for global expansion beginning in 2003. With this in mind and with large financial reserves, Cooper planned on acquiring five to six companies a year. This would be in addition to whatever domestic acquisitions were also available. Almost all of the acquisitions were manufacturing companies that produced products related to the household marketplace. However, some of the acquisitions included air conditioning and furnace companies as well as home security systems.

Risk Management Department

During the 1980s, when Cooper Manufacturing began its rapid acquisition approach, it established a Risk Management Department. The Risk Management Department reported to the chief financial officer (CFO) and was considered to be part of the financial discipline of the company. The overall objective of the Risk Management Department was to coordinate the protection of the company's assets. The primary means by which this was done was through the implementation of loss prevention programs. The department worked very closely with other internal departments such as Environmental Health and Safety. Outside consultants were brought in as necessary to support these activities.

One method employed by the company to ensure the entire company's cooperation and involvement in the risk management process was to hold each manufacturing division responsible for any specific losses up to a designated self-insured retention level. If there was a significant loss, the division must absorb the loss and its impact on the division's bottom-line profit margin. This directly involved the division in both loss prevention and claims management. When a claim did occur, the Risk Management Department maintained regular contact with the division's personnel to establish protocol on the claim and cash reserves and ultimate disposition.

As part of risk management, the company purchased insurance above the designated retention levels. The insurance premiums were allocated to each division. The premiums were calculated based upon sales volume and claims loss history, with the most significant percentage being allocated against claims loss history.

Risk management was considered an integral part of the due diligence process for acquisitions and divestitures. It began at the onset of the process rather than at the end and resulted in a written report and presentation to the senior levels of management.

A New Risk Materializes

The original intent of the Risk Management Department was to protect the company's assets, especially from claims and lawsuits. The department focused heavily upon financial and business risks with often little regard for human assets. All of this was about to change.

The majority of Cooper's manufacturing processes were labor-intensive assembly line processes. Although Cooper modernized the plants with new equipment to support the assembly lines with hope of speeding up the work, the processes were still heavily labor intensive.

Ergonomics in the Workplace Ergonomics includes the fundamentals for the flexible workplace and ability and compatibility with desk components that flex from individual work activities to team settings. Workstations provide supportive ergonomics for task-intensive environments. Outside the discipline, the term "ergonomics" is generally used to refer to physical ergonomics as it relates to the workplace (as in, e.g., ergonomic chairs and *keyboards*). Ergonomics in the workplace has to do largely with the safety of employees, both long and short term. Ergonomics can help reduce costs by improving safety. This would decrease the money paid out in workers' compensation. For example, over five million workers sustain overextension injuries per year. Through ergonomics, workplaces can be designed so that workers don't have to overextend themselves and the manufacturing industry could save billions in workers' compensation. Workplaces may either take the reactive or proactive approach when applying ergonomics practices. Reactive ergonomics is when something needs to be fixed and corrective action is taken. Proactive ergonomics is the process of seeking areas that could be improved and fixing the issues before they become a large problem. Problems may be fixed through equipment design, task design, or environmental design. Equipment design changes the actual, physical devices used by people. Task design changes what people do with the equipment. Environmental design changes the environment in which people work but not the physical equipment they use.

QUESTIONS

1. Was the original intent of creating the Risk Management Department correct in that it was designed to protect corporate assets? In other words, was this really risk management?
2. Are the new responsibilities of the department, specifically ergonomics, a valid interpretation of risk management?
3. Can the lowering of health care costs and workers' compensation costs be considered a project?
4. How successful do you think Cooper was in lowering costs?

INTRODUCTION

PMBOK® Guide, 6th Ed

Estimate Activity Durations

to assist project ma
not be competitive. If
pocket. For a small
Perhaps the most diffic
of a large quantity of u
of 15,000 compone
what will be the cost fo
successive unit should
estimating techniq

GENERAL THEOR

Experience
always be
each succe
as those in
effort.
It was
dent. Perso
duction do

PMBOK is a registered mark of th