

11/29/99

## What's Your Organization's Loss Management IQ?

**How much do you know about the four areas critical to effective loss management? Take the test and find out.**

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With early signs of a hardening in the workers' compensation market, it's critical that safety professionals rededicate their organizations to higher levels of loss control effectiveness. The extended soft insurance market, fueled by excess capital capacity and intense market share competition, has diverted management attention from the underlying drivers of workers' compensation costs: accidents and their organizational causes. In the minds of many managers, all is well; they labor under a false sense of financial security.

When workers' compensation costs ultimately re-emerge as a threat to corporate profitability, organizations will need to refocus efforts on effective loss management strategies. Such strategies, however, will require more than an emphasis on traditional safety programs and regulatory compliance that, historically, have demonstrated limited ability to impact incident rates and workers' compensation costs. Studies by Ken Mitchell and Steve Leclair of National Rehabilitation Planners Inc., have confirmed: "Safety programs, although necessary, are not sufficient to control disability costs."<sup>1</sup> Effective loss management requires managerial attention to proactive accident prevention and responsive loss mitigation strategies.

An organization's loss management capability must extend beyond its safety and risk management functions and become fully integrated into the line management structure of the organization. Managers must become proficient in the core competencies and critical lessons of loss management success ... the following competencies and lessons:

1. Workers' Compensation (How to play the game by the rules and win in spite of them!). Lesson: It's OK to rewrite the rules!
2. Safety Strategy (How to recognize and remedy the real causes of accidents in an organization). Lesson: Poor performance has good reasons.
3. Cost Containment (How to minimize that portion of workers' compensation loss not medically imposed on the organization). Lesson: We have met the enemy and it is us!

4. Financial Implications (*i.e.*, How to measure the true financial impact of "L.O.S.S." Lack of Safety Strategy -- on the organization). Lesson: Pay me now ... or pay me a lot more later!

These four areas comprise the critical body of knowledge necessary for effective loss management. They represent an organization's "Loss Management IQ."

As Will Rogers once said, "It ain't what you don't know that's a problem, it's what you know that ain't so!" Unfortunately, in many organizations, operations managers know a lot that ain't so! What's needed is some straight talk about loss management's critical elements: workers' compensation, safety strategy, cost containment and financial impact on results.

The Loss Management IQ Test is designed to appraise these issues and reveal organizational misconceptions and/or performance barriers that may be impeding future success.

Because an organization's true ability to control loss lies beyond the safety practitioner, it is suggested that this test be completed by key executives, line managers, administrative staffers and frontline supervisors. When tests have been completed, compare the predominant beliefs and common mindsets to the answers and discussion presented. Exploring the differences in beliefs and variance in understandings among functions, shifts, facilities or levels of management in an organization can identify performance impediments and target opportunities for performance improvement.

<sup>1</sup> Mitchell, Kenneth and Steven W. Leclair, *Negotiated Disability in The Health Care Industry: The Invisible Bond Between Worker and Employer*, National Rehabilitation Planners, Inc., 1993

### The Loss Management IQ Test

This exercise is designed to address key issues impacting safety performance and workers' compensation costs in your organization. Answer the following questions to the best of your ability, based on your current understanding and beliefs concerning these issues. There are no trick questions in this exercise; it is intended to be an objective, factual and

enjoyable learning experience. (Watch the person to your left--he's trying to look over your shoulder!).

1. The most expensive (and generally least effective) risk management strategy for an organization to employ in dealing with its workers' compensation costs is \_\_\_\_\_.
2. True or False: A 20% dividend on your workers' compensation insurance policy means your company has earned a highly favorable rate of return on its insurance program.
3. True or False: Workers' compensation is a system designed and administered to be a fair and equitable process that balances the rights of employers, insurance carriers and claimants.
4. True or False: A facility that generates a high number of low-cost injuries is a better risk than a similarly sized facility that produces fewer, but more costly, injuries.
5. True or False: A corporate policy requiring workers' compensation claims to be reported to the insurance company within 10 working days is a reasonable performance standard.
6. True or False: To minimize workers' compensation costs, employees should be fully trained in how to file a claim and be fully informed of their rights, benefits and entitlements.
7. The best place to position safety responsibility within the structure of an organization is in \_\_\_\_\_.
8. True or False: Employee safety training is an effective way to improve the level of safe behavior in an organization.
9. True or False: An organization that places a high emphasis on regulatory compliance can anticipate lower-than-average workers' compensation costs.
10. True or False: In safety, as in other performance areas, what gets measured gets done!
11. True or False: In a multilocation, multistate operation, comparing workers' compensation loss costs, location to location, is an equitable way of measuring safety performance and motivating better results.
12. True or False: Workplace accidents are highly fortuitous events and, therefore, are difficult to predict.
13. True or False: A uniformly administered progressive discipline policy is an effective strategy for improving safe behavior in the workplace.
14. In high-performance safety organizations, executives and managers recognize the No. 1 cause of workplace accidents to be: \_\_\_\_\_

15. True or False: An effective return-to-work program emphasizes timing-- when an employee can resume job duties.

16. What percentage of workers' compensation injury lost time is due to physician-imposed restrictions?
  - a. 10%
  - b. 25%
  - c. 50%
  - d. 75%
  - e. 90%
17. What is the organizational characteristic that most influences the level of workers' compensation claim costs incurred in an organization?
18. Employee fraud and system abuse account for what percentage of total workers' compensation losses?
  - a. 5%
  - b. 10%
  - c. 20%
  - d. 30%
  - e. >50%
19. On which day of the week are most compensable lost-time sprain- and strain-type injuries reported in the workplace? (select one)
  - a. Monday
  - b. Tuesday
  - c. Wednesday
  - d. Thursday
  - e. Friday
20. By investing in a safety program, one can expect to reduce workers' compensation losses by \_\_\_ percent.
  - a. 0%
  - b. 10%
  - c. 25%
  - d. 50%
  - e. >75%
21. True or False: Returning injured employees to the workplace before they are fully capable of resuming their normal job duties ultimately increases loss costs in an organization.
22. True or False: To maximize workers' compensation loss reduction, it's important to focus priority on the "indemnity" (lost time) component of lost- time claims.
23. An organization that achieves and maintains injury rates equal to its industry average can expect workers' compensation costs, over the long term, to:
  - a. Increase
  - b. Remain unchanged
  - c. Decrease

24. Ultimately, workers' compensation losses are allocated between the insurance carrier and the insured in the following proportions:

Insurer = \_\_\_\_\_ percent

Insured = \_\_\_\_\_ percent

25. True or False: It is common practice for insurance companies to set different levels of claim reserves on similar injuries submitted by different insureds.

## **What's Your Organization's Loss Management IQ? Part II**

Unfortunately, in many businesses today, workers' compensation costs continue to stress organizations and pose very real threats to corporate profitability. In many respects, loss problems are the same, only now the answers are different! Safety professionals tasked with leading their organization's response to these tests are finding that traditional strategies--where to go and what to do --are no longer adequate to meet the challenges. We live in an era of harsh realities, the realities of change.

Business has changed. We no longer compete on a local, regional or national basis. Our business strategies must withstand the pressures of global competition. The Far East isn't that far, the Third World is catching up, quality is no longer an option, and human resources have become the competitive edge worldwide.

The business we do has changed. We have changed from a manufacturing economy to a knowledge and service economy. Many of today's employees don't report to work daily; they "work" continually in their minds.

The business process has changed. Business and academic leaders have taken us through a restructuring and re-engineering of American business. To be a world-class competitor, organizations now recognize the need to change from hierarchy to teams, from authority to influence, from control to empowerment, and from disciplinary approaches to reinforcing practices. Business schools now teach leadership of people in addition to the traditional curriculum of managing process and profit. We have literally turned our pyramidal organizations and mindsets upside down, yet ...

Safety has not changed! The predominant models, methods and mindsets that have guided the safety profession for decades remain unchanged. There continues to be a strong attachment to traditional safety strategies, the 3 E's of safety: enforcement, education and engineering.

Over the past decade, business leaders have clarified the "critical factors" of business success. Tom Peters has helped us see the linkage between leadership and excellence; Stephen Covey, the importance of values and relationships; Peter Senge, the requisite for continual learning; and W. Edwards Deming, the need to focus on process and continuous improvement. Above all, it has been Peter Drucker's insight that success is driven by attention to the critical "middle lines" (loss and expense) of business. In his words, "Minimizing loss is the No. 1 responsibility of management." It matters not how much revenue (top line) is generated if these dollars are diverted by loss and expense from reaching margin (the bottom line). Herein lies the challenge to today's organization. Enterprise "trivial" requires effective loss management!

Effective loss management, however, is not the sole province of the safety manager. It is the task of every manager in an organization. The safety practitioner's challenge is to grow organizational loss management competency at all levels of his or her organization. What's needed is straight talk on those loss management factors critical to success: workers' compensation, safety and management of loss and costs.

In the September issue of Occupational Hazards, we asked you to answer 25 questions about key issues affecting safety performance and workers' compensation costs in your organization. Check your answers, based on some of today's more successful loss management leaders.

### **Answers**

1. Buying Insurance. Of the three recognized risk management strategies (i.e., risk transfer, risk finance and risk avoidance), the most expensive and generally least effective strategy for dealing with workers' compensation risk is to insure it. Financing risk via insurance or other financial mechanisms is primarily a cost-plus proposition that adds friction costs to losses in the form of handling fees, taxes and profit loadings. In essence, insurance finances loss problems into the future rather than resolving them in the present. Unfortunately, all too common for operations managers to believe that workers' compensation losses belong to the insurance company (i.e., "It's their problem" and dollars). This belief minimizes their concern with, and involvement in, problem-seeing and problem solving. Bottom line: Losses unmanaged grow to problematic levels.

2. False. A 20 percent dividend on a workers' compensation insurance program doesn't attest to

one's investment prowess. An insurance dividend is basically a retroactive return of prepaid excess premium. It's money refunded to an insured, based on actual incurred loss levels. Insurance dividends are not taxable as financial dividends. Sorry, but you don't accumulate financial wealth by insuring risk; you only save money by preventing accidents and minimizing losses.

3. False. Workers' compensation systems are legislated to be equitable but, in practice, are administered to protect the rights of injured workers. Anybody attending a workers' compensation hearing will easily see the system is fairly balanced: 50/50 in favor of the claimant! Given the size, resources and financial strength of all other players involved, this should not be unexpected. Managers often protest what they perceive to be "inequity" in the system. In reality, the odds actually favor the employer. The system, as administered, is the reasonable price employers must pay for the protection they receive prohibiting employee negligence actions under tort law. If these statutory "no-fault" protections didn't exist, negligence actions would prevail as the remedy for workplace injuries, and costs would be significantly higher than they are today.

4. False. A facility with a high frequency of small claims is the greater risk. The size (ultimate cost) of an injury is highly fortuitous. If a company generates a high frequency of accidents, eventually its luck will run out and severe losses will be incurred. It's all a matter of the odds: not if, only when. There truly is a difference between bad luck (severity) and bad control (frequency). Insurance regulators discount the first and penalize the latter. Frequency is manageable; severity is insurable.

5. False. Industry "lag time" studies (date of occurrence to date of report) have confirmed that delays in reporting claims adds additional cost to injuries. A 10-working-day reporting standard (up to 16 days, including weekends) can add significantly to the ultimate cost of workers' compensation in an organization. In 1995, a Johnson & Higgins Quality Council, comprised of seven best practices companies, studied this issue in their organizations and found that "... for claims reported in under 20 days, each day a claim was reported one day sooner resulted in a 3 percent reduction in average claim cost." Studies by Kemper National Insurance confirm the cost impact of late reporting. Its study revealed that "claims reported in excess of 30 days (from time of incident) were 48 percent more costly when compared to claims filed within 10 days." In claim reporting, time really is money--compounded daily!

6. True. The cost of a workers' compensation claim is heavily influenced by a claimant's anxiety and fear of the unknown. It is critical to inform employees of the workers' compensation process, reporting procedures, and their rights and entitlements before injuries are incurred. Industry studies confirm that lack of information creates doubts and adversarial feelings, which can lead to attorney involvement and, ultimately, higher claim costs. The Disney World organization significantly reduced litigation and the cost of their workers' compensation claims by implementing a progressive three-phase communications program comprised of informing claimants of their rights; nonadversarial claim investigation; and "TLC" contacts by managers. When it comes to workers' compensation cost containment, honesty isn't only the best policy; it's also the least expensive policy.

7. All Organizational Functions. To maximize safety performance in an organization, safety responsibilities must be fully integrated into line operations and clearly defined in all management positions. A common error committed by many organizations in their efforts to control accidents is to assign safety responsibility to a staff function or separate safety department. When this occurs, line managers wipe their brows in relief and say "Don't have to deal with that stuff anymore!" The result: Safety becomes the safety department's job, line managers, and those with the greatest opportunity to control conditions and work practices that influence accidents off-load their responsibilities. Safety must be everyone's job, and these jobs must be specifically defined. Typically, when an organization is suffering loss problems, someone's not doing his job, and that someone generally isn't the safety director!

8. False. Employee safety training, although one of the most common strategies, has not proven to be effective in improving the level of safe workplace behavior. Many safety performance studies, including a comprehensive study of back injury prevention training at the New England Postal Service, confirm that training has minimal impact on accident rates, average days lost or average injury costs. The study concluded that what good training did produce was "better-educated injured workers." What truly affects safe behavior, reduction in accident rates and lower loss costs in an organization, is consequence delivery (*i.e.*, performance management and reinforcement practices). Employees do what is reinforced and are rewarded for doing not necessarily what they are trained to do!

9. False. There is little confirmed correlation between the level of "regulatory compliance" and workers' compensation loss reduction in an organization. The reason for this is that compliance activities primarily focus on safeguarding facilities, conditions and equipment, while true causes of accidents involve management values, organizational design and work behaviors. Low workers' compensation costs are more an outcome of improved management processes than imposed regulation of physical conditions. OSHA's 1997 strategic goal to move toward affecting the culture of organizations recognizes the need to focus on results (the objective of management), rather than hazards (the objective of compliance).

10. False. Safety is no different from any other performance issue: measurement alone is never adequate to positively affect results. Many overweight people get on a scale every morning, yet fail to do anything about dieting (how well I know!). In business, it's not what gets measured, but what gets measured, managed, reinforced and rewarded that gets done. Safety is an issue that gets heavily measured, yet frequently ignored. The Quality Solutions Group of Nashville, Tenn., in its research of industry practices, has concluded that "most organizations are data rich concerning their loss situations, yet remain uninformed, unknowledgeable and without understanding and wisdom on how to use data to solve their problems." Improved results can only be generated by benchmarking current performance, identifying improvement opportunities, setting goals, developing improvement strategies, assigning specific responsibilities, implementing an action plan, measuring progress and rewarding results. Hmm, if this sounds similar, it should, because it's the basic process of management! Safety can be managed, but generally isn't.

11. False. Comparing workers' compensation losses location-to-location in a multistate operation is an inequitable measure of safety performance. Workers' compensation losses are based on injuries, and injuries are highly fortuitous outcomes. Benefit levels and compensability rules also vary dramatically by jurisdiction. Using loss costs as a performance measure creates an apples-to-oranges comparison. A more equitable measure of safety performance is the level of safe behavior in an organization confirmed by on-floor observations. Another objective measure is the assignment of "standard costs" to various injury types and applying these uniformly to injuries incurred at all locations. Under this approach, a fall is a fall is a fall. Each is worth, on average, a standard amount, regardless of actual cost outcomes. Using

standard costs assigns comparable values to accidents (the real target of prevention), not their fortuitous outcomes, called "injury."

12. False. Workplace accident rates, injury types and loss trends are highly predictable. Insurance industry historical data and Bureau of Labor Statistics rate trends clearly indicate accident trends and predominant injury types in our workplaces, year to year. Our nation's all-industry lost-time incident rate hasn't varied significantly in 20 years. The only truly fortuitous and unpredictable aspect of an accident is when, where and to whom it will occur (How lucky do you feel?)

13. False. Any form of punishment, including progressive disciplinary programs common in most organizations, will not increase the level of safe behavior in a workplace. Punishment can stop certain unsafe acts, but it does not increase the level of desired safe behavior. Only the use of reinforcement principles and practices will increase the level of safe behavior. Unfortunately, reinforcement strategies are poorly understood and applied by managers in most organizations. What improves work performance, including safe performance, is positive recognition and rewards. These, unfortunately, are the least utilized performance improvement strategies. Behavior consultants suggest that, to improve human behavior, a 4-to-1 (positive-to-negative) ratio of consequences must be applied. Human resource studies have confirmed, however, that the ratio of negative inputs to personnel files compared with positive remarks is more like 8-to-1! We've got some rethinking to do.

14. In high-performance organizations, managers clearly understand that accidents are caused by "the system." It is designed, administered and maintained by management, not careless employees. In such organizations, there's clear acceptance that managers work "on the system," while employees work "in the system," and that the system causes accidents, while employees sustain injuries. According to Dr. Deming's teachings in statistical process control, fewer than 10 percent of undesirable process outcomes, including accidents, are due to individual behaviors (special causes). The majority (90 percent or more) are due to problems inherent in the design and administration of the process (common causes)--management-controlled causes. Bottom line: An organization can never succeed in process improvement if it believes people are the problem.

15. False. An effective return-to-work program focuses less on timing (*i.e.*, when an employee can return to work) and more on capability (*i.e.*, what an

employee can do). The what determines the when. An effective return-to-work program emphasizes abilities ("can-do's"), not disabilities ("can't-do's").

"Organizations can expect an \$8 to \$10 savings on every dollar invested in a return-to-work strategy," reports Joyce Frieden in *Business and Health* magazine. If employers really want to reduce workers' compensation costs, they must develop better can-do attitudes.

16. 10 percent. Industry studies confirm that only 10 percent of compensable lost time is due solely to physician-imposed disability restrictions. All other reasons for lost time are due to employer- and employee-controlled impediments to return-to-work, such as inflexible supervisory decisions, poor injury management practices, breakdowns in communications and failure to make reasonable work accommodations. Researchers at National Rehabilitation Planners, Inc., identify these situations as "co-malingering": the mutual actions of employer and employee that extend disability duration and impede early return to productive employment. Employees incur 100 percent of lost time; employers control 90 percent of it!

17. That organizational characteristic which most affects workers' compensation loss is "human relations." (Not the function -- the practice!) Studies by the National Institute for Occupational Safety and Health (NIOSH) and the Reliability Group, an organizational performance consulting firm, confirm a strong relationship between the level of safety (accident rate) in an organization and the strength of its employee/employer relations. In adversarial work environments, employees have a low tolerance for "working through pain" and see the workers' compensation system as a "way out" of an undesirable situation. Once out, they have little desire to return. This negatively affects disability duration and loss costs. Ken Majejka sums it up best: "It's very easy for an employee in an unhealthy organization to come to the conclusion that work is highly overrated." In workers' compensation cost control, smiles are worth big bucks!

18. 5 percent or less. While the total cost of fraud in the workers' compensation system has been estimated to exceed 20 percent, system abuse by employees has been confirmed to account for less than 5 percent of this total. The greatest part of the fraud problem consists of actions on the part of other stakeholders in the system (*i.e.*, physicians, lawyers, service providers, insurers and employers themselves) and involving activities such as overstating financials, underreporting payrolls, falsifying reports and

redundant billings. Deep Throat's advice in *All the President's Men* to "follow the money" appears applicable to the fraud issue in workers' compensation. As Tom Lynch of Lynch, Ryan & Associates has observed: "In workers' compensation, the money passes through many hands." Employee actions are "part of the problem" but they are not "the problem" in workers' compensation.

19. "Monday, Monday, can't trust that day."

Unfortunately, the Mamas and the Papas had it right! Studies supported by the National Council on Compensation Insurance (NCCI) in the voluntary workers' compensation market and the U.S. Navy relative to claim activity in their civilian worker population confirm similar findings. These studies found a statistically significant difference in the incidence of lost-time strain and sprain injuries reported on Mondays, compared with all other days of the week. Navy researchers estimated that up to 22 percent of those incidents may be non-work related occurrences imported into the workers' compensation system due to lack of deductibles or lack of indemnity payments in group health insurance. These findings suggest it's well worth keeping a keen eye peeled on Monday mornings. "So how was your weekend?"

20. Traditional safety programs have minimal impact on workers' compensation costs. Studies by NIOSH and, more recently by the Department of Energy (DOE) have found that investments in traditional (enforcement, education and engineering) safety programs had minimal impact on accident rates and workers' compensation costs. Safety programs based on compliance education and engineering do not penetrate the deeper, systemic causes of accidents in an organization (*i.e.*, management values, structures, and processes). With these key loss drivers untouched, workers' compensation losses continue. DOE studies at select sites actually found an inverse relationship exists. Those facilities that had greater investments in safety programs had higher workers' compensation costs. Who would have thought? It's further proof that safety is a management process, not a technical issue.

21. False. Returning injured employees to work via transitional work programs complements healing, maintains employee involvement and strengthens attitudes and work relations. An effective transition program is a cost-effective method of managing occupational injuries and minimizing costs. It prevents the development of adversarial relationships, which can lead to inflated injury costs.

Rebecca Shafer Bruce, a workers' compensation cost containment expert, estimates that a well-designed

transition program consisting of four key elements-- work hardening, job modification, alternate duty and volunteer assignments (within medical restrictions), can successfully return 90 percent of injured employees to work within 4 working days. Estimates by NCCI and National Rehabilitation Planners Inc., also suggest that effective injury management and return-to-work practices can reduce loss costs by 25 percent to 40 percent. To minimize loss, employers must develop a comprehensive answer to the simple question that lies at the heart of all lost time cases: "When do you want to go back to work?"

22. False. Data maintained by NCCI shows that medical and indemnity components of lost time workers' compensation claims each comprise approximately 50 percent of total claim cost. Over the past 10 years, the medical component has actually grown more rapidly than the indemnity. Given this near-50/50 proportion and the escalation trend in medical costs, both elements must receive equal priority in loss control efforts.

23. Increase. An organization that maintains flat incident rates can expect significant increases in workers' compensation costs due to medical inflation, expansion of benefits and growth in benefit levels. The total cost of workers' compensation has grown consistently over the past 20 years, while national lost time incident rate trends have remained flat. The long-term trends are clear: Mediocre performance produces high costs.

24. Insured = 100 percent plus. For the vast majority of businesses, workers' compensation losses, over the long term are fully absorbed by the insured. An insurance company collects premiums, provides services, administers claims and distributes its insured's premium to service providers, medical professionals, claimants and Uncle Sam! Of course, reasonable handling fees, expenses and profit loadings are added for providing these services. It's cost-plus, pay now or pay a lot more later! It's the insured's money! Here's an objective test of this financial reality: When's the last time your losses exceeded your insurance premium?

25. True. It is common for an insurer to set different loss reserves for similar claims occurring in different insured companies, and no, they are not playing favorites! The reason for this is the claim reserving process. Where an insured does not have a proactive injury management process or return-to-work program in place to minimize loss cost, the insurance company must realistically expect to pay more for injuries; hence, they reserve accordingly. Reserving

may not be an exact science, but it's not rocket science!

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