

Delivering a “One – Two Combination” to Flatten L.O.S.S. Costs!

By Larry L. Hansen, CSP, ARM

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“O’ Lord grant me but one more hard cycle...and I’ll promise not to screw it up!”
-Insightful Business Executive (Seat 2B)

“Hold-on...Here we go again! The 1999 predictions by A, M. Best and Conning & Company concerning workers’ compensation costs in the new millennium have come in ‘right on the money’. “While there is uncertainty about where rates (workers’ compensation) are headed, the outlook on losses is much clearer – they are heading up! – MaryAnn Godbout (OH&S, August 1999). And, as predictable as are the laws of physics, when losses increase, (and investment income plummets), insurance premiums have but only one direction to go...UP!

If it seems like we've been here before, you are right! According to NCCI historical data we’ve been at this point in the cycle, three times over the past three decades. The past soft market of intense price competition (a/k/a creative underwriting) has slipped away (more like vanished overnight), and we’re now faced with the challenge of solving ‘real’ loss problems. To do this successfully, we need focus on the two critical issues that most impact costs better management of what causes accidents (process), and better leadership of what causes claims (people)! What’s needed is a ‘one-two combination’ to flatten workers’ compensation costs!

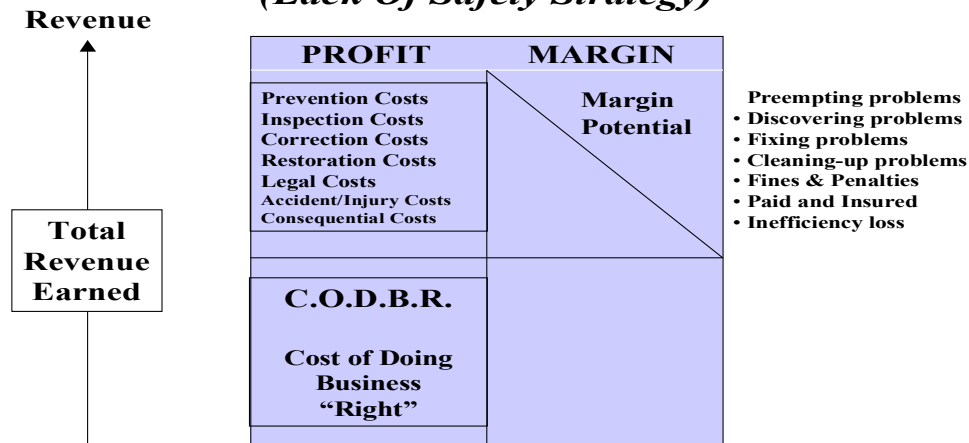
On a PBS radio program discussing the state of business and economy, I mused as the commentator described the challenges that both ‘for profit’ and ‘nonprofit’ organizations would be facing in the future. He made this insightful observation: “About 30 percent of our nation's businesses are nonprofits, but only half that number are actually chartered to be so!” The program further described how a grant application from a nonprofit organization was recently rejected by the funding authority because: "The financials looked too much like a 'for profit' corporation."

These observations make it clear that charter differences, in reality, have been erased. Being in business today, is being a business today. The distinction between ‘for profit’ and ‘nonprofit’, in practice, have faded. The bottom line is -- the bottom line! Or as Steven Covey puts it: "If there is no margin, there is no mission."

Profit orientation, however, is not the key to an organization's long term financial health and sustainability; the reason 'why' is. It's a businesses' leadership values and management process, which leads an organization to long term success...or failure. For all businesses, irrespective of charter (profit, nonprofit, or profits that aren't), success is not a top line (revenue) or bottom line (margin) issue...success lies in the ability to effectively manage 'the middle lines' (L.O.S.S., cost and expense. According to Peter Drucker: "The first duty of an organization is to survive and the guiding principle of business economics is NOT the maximization of profit, it is the avoidance of loss."

Exhibit #2

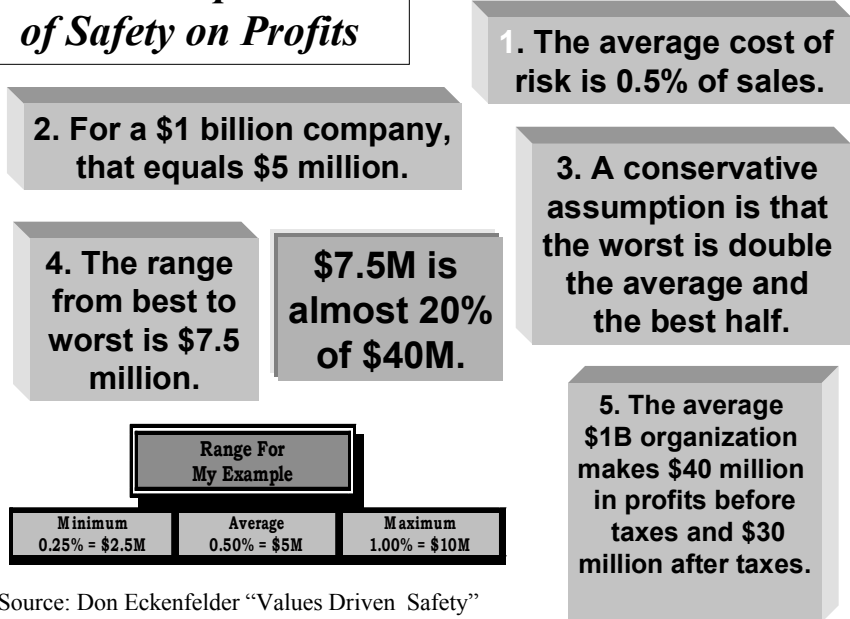
The Cost of L.O.S.S. ***(Lack Of Safety Strategy)***



Credit to Ron Glasgow

One of the most over looked opportunities for margin contribution is the management of operational 'L.O.S.S' – "Lack Of Safety Strategy". Unfortunately, most companies fail to effectively measure L.O.S.S. in their organizations, hence have little perception of the financial burden they carry, or appreciation of the margin opportunities being missed. Don Eckenfelder, in his book: "Values Driven Safety", illustrates the impact that effectively managing L.O.S.S. can have on the bottom line of an organization, a range he suggests that can span from substantial for most companies...to perhaps the single largest margin contributor for others. For a billion dollar corporation, he provides this compelling example of the untapped value available from effective L.O.S.S. management.

***The Impact
of Safety on Profits***



Source: Don Eckenfelder "Values Driven Safety"

The need to effectively manage L.O.S.S. is the common ground of all businesses, irrespective of profit orientation. L.O.S.S. control is critical to success. Unfortunately, evidence suggests that managers are poorly schooled in the financial sciences. A business literacy survey conducted by the Association for Quality and Participation polled 120 randomly selected Fortune 1000 decision-makers, and found that only nine percent could answer 10 basic business and finance questions. And more enlightening, 63 percent believed that a company could operate without cash, and 34 percent couldn't identify key information on a business income statement.” (Usilander)

Some might question these findings, but quite frankly, I don't! In my work as an organizational performance consultant (with a focus on risk management), I've found that the biggest impediment to safety success is executive ignorance! (Okay, now that you've retrieved this from the trash can... just out of curiosity, of course, read on.) By ignorance, I do not mean that executives are not brilliant individuals; they most definitely are! What I do mean, is that most Senior Operations managers have little understanding of how insurance costs are derived, how accidents impact costs, or how organizational initiatives can effectively minimize accidents, injuries, claims, and ultimately the high insurance costs they generate. But, it's not their fault. Business schools don't deal to any large extent with risk management issues, and if they're not otherwise informed, how could they know? To counter this state of misinformation, I frequently engage line managers in a session entitled: "Insurance Premium, Magic Bucks, and Other Mystical Notions". It's a session on Insurance Costs 101, and is designed to clearly 'connect the dots' -- losses to costs! When provided with accurate information, executives have no problem seeing opportunities, strategizing solutions, and producing high levels of success. They just need the 'one - two combination' of facts. The first (jab) being that accidents are due to process deficiencies, a function of management, and the second (right cross), being that operational loss (injuries and claims) are 'people issues', a function of leadership. And, most importantly that both are management responsibilities and opportunities!

Successful organizations recognize that average never is good enough. In support of that position is this interesting insight. A major workers compensation insurer attempted to profile

group desirability norms by analyzing the distribution of Experience Modification Ratings (EMRs) within one of its insured associations consisting of over 270 member companies. The findings were insightful. Over two-thirds of the group (181 members) had modifications between .60 and .99 (better than average). One-third (88 members), had modifications between 1.01 and 1.79 (worse than average). And, only one organization had a modification of 1.00 – only one was average! This tells us, as business managers, we really have only two choices: to succeed or fail; to be better than average or worse – there really is no middle ground for high performance.

Assuming that success is the goal, what must a risk manager do to flatten workers' compensation costs? The short answer: Demand answers to these critical questions...Inquiring minds want to know:

1. 'WHY'...do we spend so much money on "safety programs" and still have so many accidents?
2. 'WHY'...do we invest so much in employee training and still have unsafe behaviors in our operations?, and
3. 'WHY'...in spite of accident rate reductions, do our workers' compensation costs continue to escalate? —*Inquiring minds 'really want to know!*

Good risk management isn't having all the answers; it's asking the right questions. Many risk managers, unfortunately, aren't asking these questions of their in-house staff, insurers or loss control service providers. They continue to accept traditional answers and approaches: i.e., invest more (time and money) on the 'S.O.S.S.' that hasn't worked before--more programs, more meetings, more rules, more committees, more inspections, more training, retraining, remedial training, and ultimately more (whack-a-mole) employee discipline!

Unfortunately, more of the 'Same Old Safety Stuff' doesn't produce different (better) results. In safety, things don't add up; you reach the truth by subtracting down. And, when we peel away the myths of traditional safety 'Wiz-dumb', (wrong headed thinking that impedes progress in the right direction), we find that safe isn't an outcome of regulatory compliance, mechanical retro-fixes, or programs designed to heighten employee awareness and change employee attitudes. We discover an inverse relationship to exist—do more traditional safety; get less operational results!

What research has made amply clear is that accidents (alone), don't drive workers' compensation costs – claims do!" If we don't effectively manage both the causes of accidents (process), and the causes of claims (people), all we get are lower incident rates and higher loss costs. Major change will occur only when the workers' compensation crisis is acknowledged to be a symptom of something wrong in the management system. There is an unspoken, yet widely held belief that an organization would have few, if any, problems if only workers would do their jobs correctly. In fact, the potential to eliminate mistakes and errors lies mostly in improving the system through which work is done—not changing the workers." (Sukay)

Starting in the late 1970s, studies have been conducted addressing the critical elements of safety success. Of the more notable are those conducted by the National Institute of Occupational Safety and Health (NIOSH) and more recently by the US Department of Energy (DoE).

The NIOSH study evaluated traditional safety elements (i.e., safety committees, safety rules, accident investigations, etc.) and their impact on accident rates. This study revealed that there

were no significant differences in the accident rates between organizations that did these things efficiently vs. those that did not. Researchers then revisited the studied population and analyzed accident outcomes compared to effectiveness in core management competencies, (planning, budgeting, attitude toward workers, management/employee relationships, etc.). What evolved was a direct correlation between these ‘organizational elements’ and accident rates, -- i.e., those companies that managed poorly had high losses, and those that managed well had low losses. This landmark study confirmed that culture and management process more than a safety program determines the level of safe outcome in an organization.

A more recent study by the Department of Energy at selected sites also confirmed a ‘process – result’ causal relationship. This DoE study examined accident costs incurred at selected sites as compared to the safety budget of those sites. This study reached two conclusions (Crites):

- 1.) “Increased investment in a formal safety program did not produce improved safety performance”. In fact, distribution of results indicated an inverse relationship i.e., the greater the safety investment, the higher the level of loss, and
- 2.) ”Factors having minimal impact were:
 - A shift in safety emphasis;
 - Size of safety budget;
 - Degree of hazard;
 - Safety rules (quantity or quality), and
 - Safety committees.”

I doubt that either organization set forth in their research expecting to find inverse results – but they did! Both confirmed that effective loss reduction is more a function of organizational culture and management process than of safety programs.

What Really Minimizes LOSS cost?

Insurance industry data over the past decade has clearly identified injury management strategies as the “low- hanging fruit” for workers’ compensation loss reduction. In the 1990s, a major brokerage firm surveyed 700 organizations employing 3.8 million people, and generating \$1.1 billion in workers compensation losses. This survey determined that the total cost per claim rose 35 percent during the period 1989 to 1991, while the average claim frequency (claims per 100 employees) dropped nearly 10 percent (10.9 to 10.1). This study confirmed that managing the cost of claims (the human element) is equally, if not more important, than managing the cause of accidents (work environment). And National Council of Compensation Insurers (NCCI) data tracked over time further confirms this fact. The NCCI 2003 ‘State of the Line’ (workers compensation) report, shows that incident rates have steadily declined, while workers compensation losses (medical, indemnity, and total incurred) continue to rise.

Although, there are no ‘quick fixes’ in business, safety, or workers’ compensation, findings of a national claim administrator suggest that there are opportunities for rapid returns when an organization invests in aggressive injury management, de-lawyering, and return-to-work strategies.

A national Third Party Administrator (TPA) studied indemnity claim data from 1409 employers with return-to-work programs (RTW) vs. 8,592 employers without, and found:

- *Average claim costs* for companies employing RTW strategies to be \$7,217 compared to \$17,944 for employers without.

- *Length of disability* for claims of RTW organizations to be 2.8 months compared to 5.3 months for those without.
- *Average time to Maximum Medical Improvement (MMI)* to be 5.1 months for those with RTW compared to 13 months for those without.
- *Average indemnity* (lost wage payments) for RTW companies to be \$6,120 compared to \$15,720 for those without, and,
- *Average medical costs* for RTW companies to be \$1,097 compared to \$2,224 for those not employing RTW.

Allowing first-line supervisors to make decisions which impede employees from returning to work “unless 100 percent recovered” are costly ...often six-figure decisions! It may be time to put a limit on their spending authority!

This message on workers’ compensation cost control started with a focus on profitability-- the issues of top line, bottom line, and the critical ‘middle lines’. I appropriately choose to end there as well. If an organization wants to ‘KO’ workers’ compensation costs, it must confront the two key drivers of them...management of process and leadership of people. “To be successful at reducing injuries and workers’ compensation costs, “American businesses must address the quality of management and management systems.” (Sukay) Past research, current statistics, and our on-going experience tells us that much of what we’ve done in the past hasn’t worked. To succeed, we must turn top dollars into bottom dollars by managing ‘L.O.S.S.’ dollars. We will achieve this, not by investing more in traditional safety programs, but by greater efforts to integrate safety into core business processes and organizational value systems. Losses will only be significantly reduced when SAFE becomes how business is done, not a program, and when managers recognize that injury costs are a function of employee attitudes and behaviors, both of which are shaped by leadership practices.

To reap rapid returns in a workers’ compensation cost reduction initiative, an organization must employ positive employee relations, compassionate (and financially sound) injury management practices, and aggressive return-to-work strategies. These initiatives will effectively ‘de-lawyer’ the workers’ compensation process. It must then move from traditional safety programs to progressive organizational performance strategies. These two changes, when timed perfectly, will deliver the “one-two combination” that will successfully ‘flatten’ L.O.S.S. costs.

"We've rope-a-doped long enough -- it's time to deliver a one-two combination to flatten workers compensation L.O.S.S. costs!"

To learn more about this topic, contact Larry Hansen at (315) 383-3801, by e-mail at llhsos@dreamscape.com, or online at www.L2HSOS.com.

Principles of L.O.S.S. Management *(Lack Of Safety Strategy)*

1. "To get employees to pay more attention to safe practice, assign more of a manager's pay to effectively managing safe process."
2. "A dollar saved (LOSS) is more than a dollar earned (revenue) when valued at margin."
3. "Managing 'risk' is wise; doling out 'LOSS' is expensive. "Spend money on prevention . . . not insurance. Financing LOSS into the future increases its ultimate cost."
4. "Losses allocated to line managers minimizes losses generated in line operations".
5. "If we took greater action on true accident causes , we would have far fewer under-performing managers."
6. "Supervisory accident investigation reports rarely link root cause with effect, and thus are counter-productive, -- would you blow-in your boss?"
7. "If you think hiring a safety director will solve LOSS problems; think again!"
8. "Taking sides in the 'traditional' (conditions) vs. 'behavioral' (practices) safety debate is avoiding excellence, and siding with mediocrity."
9. "How managers manage directly impacts how employees perform...including Safe vs. Unsafe. Always seek the 'good reasons' for poor performance."
10. "Safety programs impact a number of things; accident costs aren't one of them."
11. "Accidents are 'triggered' on the shop floor; accidents are 'caused' in the corporate offices. Managers work 'on the system'; employees work 'in the system'. The system causes accidents; employees sustain injuries—fix the system!"
12. "It defies business logic to believe that so many smart managers can hire so many dumb employees. Someone's got to smarten up!"

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