The Business of Safety

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What We Will Cover
- Business and Safety overview
- Impacts of a safety program on business – and how that occurs
- Relevant leverage points within the business model
- How safety managers succeed in influencing business decisions
What is “Business”
A business (also called a company, firm and enterprise) is a legally recognized organization designed to provide goods and/or services to consumers.


All Businesses Strive to Be

- Profitable
- Predictable

Safety as a Discriminator

- Excellence in safety is associated with firms that:
  - Execute on time, on budget, with high quality products or services
  - Manage risks in the workplace
  - Value people and retain excellent people
  - Value excellence in all that they do
**Safety as a Discriminator**

- Firms that do not have high-end safety programs often suffer from:
  - Poor or unpredictable performance
  - Financial, production, or quality challenges
  - A poor reputation in the market place
  - High turnover in management

**How do we Safety Pros influence a business?**

- Improve work planning and risk management processes
- Improve recognition of change management
- Improve teamwork ethic
- Reduce failures

**Incentives**

- All humans (and all business firms) operate and respond to incentives.
  - Moral Incentives (do the right thing for the right reason)
  - Social Incentives (what we hold each other accountable to- social norms)
  - Economic Incentives (our financial incentives…)
**Economic Incentives**

- Economic Incentives of Business
  - Reward positive performance
  - Punish negative performance
- To influence economic incentives, we need to understand the language and financial processes of business.

**What is “Business”**

Financial Categories

- G&A
- Labor
- Profit
- Operating Exp

**General and Administrative**

- G&A includes
  - Management overhead, administration, finance, payroll, procurement, human resources, safety, health, environmental, quality, security, legal, etc.
  - Facility costs
  - Communications and admin costs

“G&A expenses are the top level costs for operating a business unit's corporate activities. These costs are typically not within the division manager’s realm of control and are not allocable to any single division.”
Labor

- **Labor Includes**
  - Raw labor costs
  - Burdened labor costs (benefits, workers comp insurance, direct support costs)
  - Taxes on labor

Operating Expenses

- **Operating Expenses Include**
  - Equipment costs
  - Property costs
  - Production costs (including subcontractors, vendors, suppliers)
  - Project insurance costs
  - Losses associated with production, quality, compliance, or claims

Profit

- **Profit**
  - Funds received that are not otherwise obligated
The Business Case for Safety

Claims & Safety Processes Affect Insurance Costs

- How is your organization insured?
  - First dollar
  - Deductible
  - Retrospectively rated policy
  - Self-Insured
- How are insurance and loss costs allocated?
  - Subsidiary
  - Job
  - Business Unit
  - Not at all?

Claims & Safety Processes Affect Insurance Costs

- Experience Modification Factor – Work Comp
  - How your organization’s claims compare to others in your business
- Claims Costs
  - Administrative (internal) Costs
  - Legal Costs
- Underwriting Concerns
Claims Affect Workers’ Compensation Premiums

- Experience Modification Factor
  - How Your Organization Compares to others in the same type work

Payroll → Expected Losses
Class Code Rate

Actual Losses
Compared To
Ex Mod

Payroll
Class Code Rate
Expected Losses
Actual Losses
Compared To
Ex Mod

Experience Modification Factor
How is it calculated?
Claims Affect Workers’ Compensation Premiums

- Experience Modification Factor
  - What Can You Affect?

  Payroll
  
  Class Code Rate
  
  Expected Losses
  
  Actual Losses
  
  Ex Mod

Claims Affect Workers’ Compensation Premiums

- Experience Modification Factor
  - How your organization’s claims compare to others in your business

<table>
<thead>
<tr>
<th>Classification</th>
<th>Rate</th>
<th>Payroll</th>
<th>Premium</th>
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<tbody>
<tr>
<td>AK Clerical</td>
<td>0.23</td>
<td>$1,350,000</td>
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<tr>
<td>AK Carpentry</td>
<td>3.37</td>
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Unmodified Premium $100,161

2009 Experience Modifier 1.13
Modified Premium $113,182

2008 Experience Modifier 0.95
Modified Premium $95,153

Potential Savings

- Scenarios Base Premium ExMod

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Base Premium</th>
<th>ExMod Premium</th>
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<tr>
<td>Actual</td>
<td>$1,000,000</td>
<td>$1,100,000</td>
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<tr>
<td>“Average” Mod</td>
<td>$1,000,000</td>
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<tr>
<td>Low Mod (No Claims)</td>
<td>$1,000,000</td>
<td>$530,000,000</td>
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“Opportunity: What we are leaving on the table” $570,000
Claims Affect Workers’ Compensation Premiums

- Experience Modification Factor
  - Must prevent claims to save money!

Insurance Doesn’t Cover All Costs of Injuries

Internal Admin Costs of Injuries – Work Comp Injuries

- Claim Reporting & Paperwork
- Reassignment of Duties
- Training & Retraining
- Temporary Replacement
- Hiring
- Claims Management
- Investigation
- Productivity Loss
How Your Business Looks to an Underwriter

Injury Prevention
- Physical Facility Inspections / Audits for safety
- Hazard Analysis/Job Analysis
- Correction & Follow-up Processes
- Management Programs
  - Purchasing Processes include safety (i.e., safety is included in furniture purchases)
  - Written Safety Programs
  - Safeguard Enforcement – Enforcement of controls
- Incident (Near-Miss) Investigation
- Corrective Actions
- Management Controls
  - Background Checks
  - Criminal
  - Pre-Employment Screening
  - Post-Offer Job Specific/Health Information
  - Health Questionnaires
  - Placement; Job modification/accommodation
  - Drug Testing

How Your Business Looks to an Underwriter

Injury Response
- Response Protocol
- Emergency Response Protocol
- Management Reporting – Does senior management get reports of employee injuries?
- Treatment
- On-site Trained First Aid Responders
- Preferred Facility (Non-directed) Treatment Protocol
- Post-Accident Site and Records Investigations
  - Securing Dangerous Situations
  - Preserving Evidence (i.e., faulty equipment)
- Accident Investigation
  - Specialized Training
  - Documentation
  - Correct and Follow-up Processes
Beyond injury prevention...

- How does a Safety manager influence business decisions?
  - Leverage Points

Leverage points

- Pay attention to the business development and marketing side of the business.
  - Influence risk management decisions
  - Influence proposals

Leverage points

- Improve work processes
  - Processes that are well planned are also safe.
    - Hazard recognition
    - NM reporting
    - JSA/JHA
    - Integrate "engineered" solutions into the process
    - Anticipate
- Improve competence
  - Work performed by competent persons will be completed with fewer quality problems, lower costs, and better results.
Leverage points

- Work performed by competent persons will be completed with fewer quality problems, lower costs, and better results.
  - Short Service Employees
  - Mentors
  - Training
  - Job Aides
  - Quality initiatives (Lean Six Sigma, TQM, etc.)

Leverage point

- Foster a “learning organization”
  - Systems thinking
  - Competent accident investigations
  - Root cause methodology
  - Share lessons learned
  - Push this capability beyond typical HSE boundaries
    - Production deviations or failures
    - Quality non-conformances

Safety Managers Succeed By

- Understanding and using the financial / economic incentives of business
- Understanding how safety impacts the costs, losses and profits of a business
- Improving processes within the business to reduce losses
- Improve processes within an organization that improve profits
- Exerting influence on the leadership so that safety is integral to all business decisions
What We Covered...

- Business and Safety overview
- Impacts of a safety program on business – and how that occurs
- Relevant leverage points within the business model
- How safety managers succeed in influencing business decisions

Thank You

Questions?