Defend Your Profits

Safety Tools for Bottom Line Improvement

By Rodney Grieve

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BRANTA Worldwide
2443 Fair Oaks Blvd. #329
Sacramento, CA 95825
Phone 916.487.1919

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LEARN

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brant \ 'brant \ *n, pl* **brant** or **brants** [origin unknown]: a wild goose; *esp* : any of several small dark geese (genus **Branta**) that breed in the Arctic and migrate southward.

"When geese are on the ground, they wander around individually, ignore one another, scavenge for food, and look out for only themselves. When they are on the ground, they are known as a gaggle. When a gaggle takes flight, however, something magical happens: they fly in a formation known as a skein, and they fly 72% further and significantly faster than they do on their own. The honking that you hear is thought by scientists to be positive reinforcement for the leader to keep up the pace. When the lead goose gets tired, it falls back and another takes its place. When one of the geese is sick or injured, two birds accompany it to the ground until it recovers. Once it recovers, they accompany it back to the flock."

Do you want your organization to operate like a gaggle or a skein?

LEAD

About the Author

Rodney Grieve

Rodney Grieve is the founder of BRANTA Worldwide Inc, a firm dedicated to helping clients safely build quality products. He has nearly two decades of hands-on environmental compliance and health and safety experience, many of which he spent in the highly regulated hazardous waste industry. After years observing the flaws of traditional safety programs, Rodney developed The BRANTA Method™, a system designed to change the company culture. Implementation of the BRANTA Method™ has contributed to significant reductions in total incidents and actual injuries for many clients. The BRANTA Method™ focuses on the development of leadership skills in front-line supervisors so that they can work to actively defend their company profits and protect employees.

Mr. Grieve has authored three books in the Defend Your Profits series. He regularly speaks to managers at all levels about the significance of their role in creating a successful business culture. He holds a Master Degree in Environmental Policy and Management from the University of Denver and a Bachelor Degree in Biological Sciences from Cal Poly SLO. He is a Professional Member of the National Speakers Association and a Certified Instructor for the Dale Carnegie Organization. When Rodney isn't on the road, he enjoys spending time at his Northern California home with his wife, Darcy, and their two children, Hudson and McKinley.

SOAR

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Introduction

Your business is losing money to safety failures. In 1998, Liberty Mutual Insurance estimated that U.S. businesses pay $155 to $232 billion each year in direct and indirect costs for occupational injuries and illnesses.[1] Based on inflation, those numbers are now to $192 to $288 billion in 2006. Fortunately, you can minimize your safety losses. The tools identified in this guide will help you keep your hard-earned profits. Safety takes effort and commitment—it does not need to take all your money.

Although most safety professionals, consulting firms, and the U.S. Occupational Safety and Health Administration (Fed-OSHA) recommend extensive compliance audit programs and

[1] Liberty Mutual Workplace Safety Index, 1998.

expensive safety incentive plans, they are not the focus of this guide. Compliance with regulatory requirements protects you from fines and jail. It does not protect your employees from injury, and your profits from disappearing. Compliance with OSHA standards, although necessary, is the start of an effective safety process, not the end. And a safety incentive program, if not managed properly, can cost a small fortune and even *contribute* to your safety problems, leading to even more costs. After all, if **you committed unlimited funds to your safety program, would that guarantee zero injuries?**

Traditional safety management falls into one of three categories: compliance-based safety, behavior-based safety, and engineering-based safety. Each of these methods has value and elements of each are necessary for a successful process. However, each of these methods also has flaws. (See the Comparison Charts on pages 11 and 12) Of these flaws, the most critical is that each allows front-line supervisors to abdicate their responsibility to another entity or process. The BRANTA Method™ described in this book is a logic-based approach that promotes supervisor accountability for creating an environment of success…and gives them the tools to do so.

Type of Program	Focus	Main Goal	Driven by	Relationships
Compliance-Based Safety	On rules and regulatory programs only	Establish OSHA compliance	Safety professionals	Usually adversarial (i.e. safety cop) and confrontational
Behavior-Based Safety	On safe behaviors only	Correct unsafe behaviors	Employee committees	Although 'anonymous/no blame' system, focus is on employee actions
Engineering-Based Safety	On work processes only	Eliminate work place hazards	Safety engineers	Since work process based, does not involve personal relationships
Logic-Based Safety	On effective leadership and communication skills at the front-line supervisor level	Continually improve safety, productivity, and quality	Front-line supervisors	Builds positive working relationships to create overall business success by reducing turnover and improving morale

Type of Program	Supervisor's Role	Difficulty to Implement	Overall
Compliance-Based Safety	Lets supervisor abdicate responsibility to safety management team	Some initial training, but difficult to get compliance	Makes safety a negative and a necessary evil outside of definition of business success
Behavior-Based Safety	Lets supervisor abdicate responsibility to employees	Significant initial employee training and ongoing time and paperwork burden on employees	Misses process improvements and hazard elimination
Engineering-Based Safety	Lets supervisor abdicate responsibility to the work process	Significant business interruptions and large capital expenditures for work process modifications	Ignores the human element of business and the reality of cash flow
Logic-Based Safety	Creates supervisor accountability for creating an environment of success	Significant initial supervisor training and on-the-job practice	Integrates safety with productivity and quality to create a balanced culture of success

Safety success comes from accountability and responsibility throughout an organization, with front-line supervisors[2] in the lead. The next six chapters provide those supervisors the specific tools necessary to manage safety. The information contained in this book is not only for front-line supervisors, however. Whatever level you manage within your organization, implementing these simple tools will increase your profitability.

This book will not provide a "silver bullet" to stop safety failures; instead, it will help you gather and understand the information you need to manage your bottom line.

This book explains six realities of safety management. Each chapter contains *Get the Facts* questions that give you the opportunity to learn about and record pertinent data for your organization. Without this data, you cannot make sound business decisions. The *Quick Checks* worksheets help you quickly evaluate your company's overall safety performance so you can choose the direction you need to lead. Finally, a *Key Point* segment in each chapter highlights important information to help you soar as a leader.

[2] Throughout this guide, the term *supervisor* means any individual in an organization with front-line direct reports. These individuals may have job titles of manager, superintendent, leadman, or foreman. Regardless of the title, you can apply the principles discussed in this guide to any supervisor in any industry.

ICON KEY

	Learn: Get The Facts
	Lead: Quick Check
	Soar: Key Point

With these tools you will identify and address your organization's safety issues. You will learn how to minimize your safety losses and **defend your profits.**

NOTES:

Chapter

1

The Reality of Costs

"Minor cuts and bruises are part of the business—I don't have time to address all of them." Take this approach to handling safety issues and your company will lose money. Although most companies recognize the direct costs associated with safety failures, they ignore the more substantial indirect costs. Furthermore, most companies consolidate their Workers' Compensation Insurance costs at the highest level of the organization. Few middle managers realize the financial effects that safety failures have on their bottom line.

The Cost of Workers' Comp

By state law, your company is required to maintain Workers' Compensation Insurance. This insurance covers your employees' medical expenses and compensates them for missed work or loss of ability. The insurance is purchased on the open market from insurance companies in the same manner as car insurance. As with car insurance, the higher the deductible, the lower the premiums. Most large companies, therefore, hold policies with an extremely high deductible (up to $500,000 per claim) to keep the premiums low. When an employee files a claim, all of the money (in California, up to $728 per week in salary alone) comes off of the company's bottom line until the deductible is reached. In most cases, the deductible amount is never reached; in effect making the company cover its own Workers Compensation Insurance. Furthermore, Workers' Compensation Insurance premiums have jumped significantly in recent years due to a number of carriers leaving the marketplace. High deductibles, rising premiums—Workers' Compensation Insurance is expensive.

What is your company's deductible for Workers' Compensation Insurance?

The True Costs of Safety Failures

Even if your Workers' Compensation Insurance premium is low and the deductible is zero, these costs are just the beginning of safety failure expenses. Based on a three-year review of occupational injuries for a multi-national industrial services company, we concluded that costs covered by Workers' Compensation Insurance are just a small part of the true costs of safety failures. The study evaluated not only the direct costs of workplace injuries and illnesses, such as medical expenses and employee compensation, but indirect costs, such as loss in productivity, loss in morale, retraining, and management time to analyze and address issues. The study determined that injuries requiring basic first-aid treatment cost a company an average of $6,000 per incident. A non-loss time injury (that is an injury where the employee can return to work for his/her next scheduled shift) cost the employer an average $13,000. If an employee cannot complete any or all parts of his/her normal assignment during subsequent workdays or shifts, the injury is a loss-time injury (LTI). A company's bottom-line losses average $30,000 for a minor LTI and the costs can potentially reach into the hundreds of thousands in more severe cases.

NOTE: Later in this chapter you will work though the actual costs, both direct and indirect, associated with a workplace injury. Since this exercise takes time and research to complete for every incident, we use average numbers based on years of incident reviews for comparison purposes. To some, these numbers ($6,000 for a first aid case, $13,000 for a medical case, and $30,000 for a loss time case) seem excessively high. How can a simple first aid cost $6,000? The answer is actually quite simple and explained in depth in Chapter 5. In a nutshell, one incorrect assumption often made by employees and managers alike is the correlation between injury severity and the cost of the injury. If an organization is properly addressing safety issues, the funds spent on the analysis and eventual corrective actions should be based on the potential severity and frequency, not the actual severity only. For example, an employee was hit with a glancing blow from a hook falling from an overhead hoist. Mere inches were the difference between a first aid and a fatality. The actual severity (first aid) means we were just lucky this time. Although the incident was classified as first aid treatment only, the analysis and corrective actions required $100,000 in engineering work. The existing hoist system required complete retrofitting in order to both meet operational needs and eliminate the high potential for recurrence. The organization would have to experience more than fifteen additional first aid cases at zero cost in order to bring the average down to $6,000 per first aid case. Dispelling this assumption is one of the first steps in moving from chance management to logical leadership.

To further support these averages, a recent Liberty Mutual Insurance[3] survey of top executives exposed the true costs of safety. Forty percent of the executives reported that for every $1 of direct safety costs, they spent $3 to $5 dollars in indirect costs.

How much does safety cost? Consider Company ABC with 12,000 employees. In one year, they had just over 1,000 incident reports. Based on historical data, these incidents resulted in an average Workers' Compensation cost of about $2,500 per claim. Since Company ABC carries a deductible of $250,000 it paid all of its own Workers Compensation costs. Thus in direct costs alone, this company spent over $2.5 million that year on safety failures. However, by applying the average values from above to the types of injuries suffered, this company actually lost over $8.3 million dollars in addition to any Workers' Compensation Insurance premiums.

[3] Cal-OSHA Reporter (10-12-2001)

Safety Costs for Company ABC

First-aid treatment:	741	X	$6,000	=	$4,446,000
Medical treatment (no lost time):	243	X	$13,000	=	$3,159,000
LTI:	24	X	$30,000	=	$720,000
Total True Costs for Safety Failures:					**$ 8,325,000**

Does it make sense? Using the following worksheet, calculate what your last employee injury really cost you.

3 How much does an injury cost your company?

For each of the categories, enter the total cost to your organization.

Fully loaded salary of the injured employee for any hours paid after the incident. (e.g., wage continuation)	$ ________
Workers' Compensation benefits paid to the employee	$ ________
Medical fees associated with the injury	$ ________
Fully loaded salary of the supervisor for hours spent responding to the incident, obtaining medical assistance for employee, completing required paperwork, conducting incident analysis, developing and implementing corrective actions, counseling current employees, and interviewing, hiring, and training replacement employee	$ ________

Fully loaded salary of the management team for hours spent responding to the incident, supporting incident analysis, reviewing corrective actions, and dealing with regulatory agency and customer issues arising from the incident	$
Fully loaded salary for administrative support needed to ensure the proper completion of all forms, to work with the Workers' Compensation Insurance to manage the claim, and to pay invoices for costs under the deductible	$
Repair or replacement of damaged equipment or property	$
Implementation of engineering, administrative, or personal protection controls	
Loss in productivity due to incident	$
Loss in sales or customers due to incident	$
Overtime to cover missed shifts	$
Total	**$**

How much money did you really lose last year to safety failures?

Record the total number of incidents[4] in the following categories:

First-aid treatment:	______	X	$6,000	=	$ ________
Medical treatment (no lost time):	______	X	$13,000	=	$ ________
LTI:	______	X	$30,000	=	$ ________
Total True Costs for Safety Failures:					**$** ________

[4] If you do not have records of any occupational injuries, either your organization is unique and very safe, or it has no safety process and is significantly losing money.

Pushing Down the Liabilities

Push safety liability costs down to the lowest level possible.

Companies usually treat their Workers' Compensation Insurance costs like all other insurance costs: consolidated at the highest level of the organization. Most companies add Workers' Compensation premiums and projected claim payments, divide the total by the number of employees, and determine a rate per employee that is pushed down to the operating level. This simple method reduces management costs and duplication, and each operating group pays its fair share of overall costs based on the number of employees. Unfortunately, there is nothing "fair" about this method. It does not push the "pain" (the direct costs) back to the operating group or manager with the problem in the first place. Therefore, the manager is neither accountable nor responsible for safety failures.

Is your accounting system rewarding unsafe behavior?

In fact, managing Workers' Compensation costs in this manner may actually contribute to safety failures. Compare two managers running similar operating locations for the same company. A compensation plan provides each manager with a substantial year-end bonus for his group's profitability. Greg cuts corners, takes undue risks, and tells his employees to get the job done regardless of safety. He considers safety meetings a "waste of time," and training takes a back seat. His group has several injuries over the year, but in the end, the bottom line is in the black. John is a true leader, building relationships with his employees and creating a workplace environment that promotes productivity, safety, and quality. Due to his efforts, his group has no injuries and the bottom line is also in the black, although to a lesser degree than his colleague's. Both managers receive bonuses. Greg's larger bonus in effect rewards his poor safety leadership. However, because of his behavior, the new fiscal year sees higher Workers' Compensation costs due to increased premiums and claims paid. Recognizing the potential effects on next year's bonus, Greg continues cutting corners, maybe taking even greater risks. John, on the other hand, is being punished for creating a safe workplace. His safety efforts came off his bottom line and directly reduced his bonus. Now, he must also carry the additional burden created by another manager's short sightedness. What will he do next year?

Direct safety costs should be pushed down as far as the accounting system will allow. If your company works on a project basis, any direct costs should come from the bottom line of that project. Pushing down safety costs reveals the true profitability of an operating group or individual project and gives a solid base for accurate business decisions. Pushing safety costs also forces each supervisor to carry the costs of his/her day-to-day decisions. This accountability creates a sense of responsibility at the frontline management level. This, in turn, results in a work environment that balances productivity, safety, and quality. In such a culture, your company, your clients, and your employees reap the benefits.

Summary: Chapter 1

Myths:

- A manager doesn't have time to deal with minor injuries.
- Our insurance covers the costs of occupational injuries.

Truths:

- Occupational injuries cost you more than you think.
- Workers' Compensation Insurance costs continue to rise.
- Injury costs come straight from the bottom line.

Answers:

- Educate your front-line managers by having them calculate the true costs of a safety failure.
- Create accountability by pushing down the costs of safety failures as far as your system allows.
- Adjust your incentive programs to reflect overall, sustainable success in all aspects of your business.

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