



Five Steps to Reducing Workers' Compensation Costs

When a company experiences significant increases in worker's compensation costs, it usually triggers internal activities aimed at reducing insurance costs and reduce spending. The key to spending fewer dollars is more than just stopping a few accidents; the key is having a sound safety program designed to continuously improve. This is where a safety program that, at a minimum, is compliant with the OSHA standards can yield significant savings for your company by reducing injuries and illnesses, and saving workers' compensation dollars.

Building a solid OSHA program requires putting programs into practice

From an entry-level standpoint, there are five steps your company can take to have a well-rounded safety program that produces a safe work environment, achieves OSHA compliance and reduces accidents. Those steps are:

1. Develop the various programs required by the OSHA standards;
2. Integrate those programs into the daily operations;
3. Investigate all injuries and illnesses;
4. Provide training to develop safety competence in all employees; and
5. Audit your programs and your work areas on a regular basis to stimulate continuous improvement.

With those steps in mind, let's start with OSHA compliance. Aside from being a requirement for general industry, the OSHA standards provide a good pathway to incident reductions.

A good number of accidents stem from poorly developed, poorly trained, or poorly implemented OSHA programs. Slips or trips may come from poor housekeeping efforts or not keeping walking and working surfaces clear. Not using personal protective equipment may result in excessive lacerations. Poor lifting techniques can result in strains.

Many of the OSHA standards require some type of written program be developed and then communicated to employees. Experience shows that companies with thoroughly developed OSHA-compliant programs have fewer accidents, more productive employees and lower workers' compensation costs.

But policies alone won't get results; the program must move from paper to practice to succeed. Putting a policy into practice requires a strategic plan clearly communicated to key participants, good execution of that plan based on developed competencies, and a culture that inspires and rewards people to do their best.

When developing any business initiative there must be an emphasis on frontline supervisors and helping them succeed. Every good business person knows that any new program, be it safety, quality or anything else, lives and dies with the frontline supervisor. If the frontline supervisor knows the program and wants to make it happen, the program succeeds; if not, the program is a source of constant struggle and an endless drain on resources and energies. Providing supervisors with knowledge and skills through training is critical to the success of any program.

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A solid OSHA program, integrated into the daily operation and led by competent supervisors is just the beginning. Successful safety programs focus on being proactive instead of always reacting to issues. Accident investigations provide an excellent source of information on real or potential issues present in the workplace.

The role of accident investigation

Worker's compensation is designed to recompense employees for injuries or illnesses that result in or out of the course of employment. This should not come as a surprise, but increasing claims drive up workers' compensation costs. To reduce those costs, you must reduce your accidents; it's just that simple. And the ability to reduce accidents is significantly enhanced when those accidents are fully investigated instead of simply being reported.

Accident reports are historical records only citing facts while accident investigations go deeper to find the root cause and make improvements. Businesses that stop rising work comp costs have an effective accident investigation process that ferrets out the root cause of the problem. Unless the root cause is discovered, recommendations for improvement will remain fruitless. Again training proves beneficial because a supervisor skilled in incident analysis is a better problem solver for all types of production-related issues; not just safety.

Which accidents should be investigated? *All* accidents should be investigated to find out what went wrong and why. Some may suggest investigating every accident is a bit over the edge and only those that incur significant costs are worthy of scrutiny. But ask yourself this question: If you only investigated serious quality concerns instead of every little deviation, would your quality program still be as effective as it is? Companies with solid quality programs investigate and resolve every deviation from quality standards. Here's the key: accidents are deviations from your safety program and warrant your full attention to find the root cause.

You will reduce your workers' compensation costs if you investigate all accidents. If your emphasis is only on those incidents that have to 'recorded' on the OSHA 300 Log, you close your eyes to the biggest accident category of 'first aid only' incidents. Many companies get upset about 'recordables' or 'lost time incidents' because of the significant costs involved but then they don't go far enough with problem resolutions. But recordable and lost time incidents don't make up the largest block of incidents; it is first aid only incidents that are the largest category.

Statistically it is proven that for every 100 accidents, 10 will be recordable and one a lost time

incident. If you investigate only recordables or lost time accidents, 89 of your incidents go unnoticed. Again, using the Quality program analogy, would you consider a quality program that allows an 89% failure rate successful? Hardly! It doesn't take a PhD in mathematics to see that reducing serious accidents means you must reduce your overall base of all accidents – including first aid incidents. That only happens when every incident is fully investigated to find the root cause and remedial actions are identified and integrated into the daily operation.


Training and auditing for continuous improvement

The final steps focus on training and auditing your program for continuous improvement. Training plays a significant role in safety and in reducing work comp costs. The goal of training is to develop competent people. What is competency? Competency is when people have the knowledge, skill, and understanding to perform assigned job responsibilities. Competence, more than anything else, will improve all aspects of your business and drive down costs. Supervisors must have the knowledge and ability to integrate every safety program into their specific areas of responsibility. Every employee must know what is expected of them when it comes to implementing safe work procedures. Once the programs are developed and implemented, they must be reviewed on a regular basis to make sure they are still relevant and effective.

Might all of this require a change in how you manage your safety program? Well, if your workers' compensation rates are high because you have a poor safety program, you better change how you manage your safety program. Back in the 1980s when 'quality' went through its renaissance, was it necessary for companies to make some changes in how their quality programs were managed? The same thing is necessary with 'safety' and having an effective safety program.

Tangible benefits

- ◆ There is a return on investment and direct bottom-line benefits can be seen when a safety program is properly designed, implemented and integrated into the daily operation.
- ◆ A competency-based safety program is compliant with OSHA requirements and therefore reduces the threat of OSHA fines.
- ◆ A competency-based safety program lowers accidents and fewer accidents lowers workers' compensation costs. When incidents do occur, a competency-based safety program fully evaluates the issue and finds the root cause to



prevent reoccurrence and provides a workplace that is free from recognized hazards that injure people.

- ◆ A safer workplace creates better morale and improves employee retention. Auditing keeps your programs fresh and effective and drives continuous improvement.
- ◆ Finally, a competency-based program produces people who are fully engaged in every aspect of their job and are satisfied and fulfilled producing high-quality goods and services.

How can we assist you?

At Risk Concepts, we are committed to helping you establish a strong safety program that minimizes your workers' compensation exposures. Contact us today at (925) 283-8200 to learn more about our OSHA compliance and safety program tools and resources.

This Risk Insights is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice

How much is your business worth?

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Most entrepreneurs or small business owners don't have a realistic idea of the value of their business. Yet this important piece of information can be one of the most useful tools a business owner(s) can have in managing their enterprise and securing their equity in the business.

Why? Business valuations are useful management tools for many reasons:

It can provide a dashboard of the key performance metrics

Businesses can be viewed as the Goose That Lays the Golden Eggs, Aesop's fable. The size, weight and regularity of the eggs laid during a given reporting period represent the eggs the Goose produces. The care, feeding and replacement cost of the Goose, combined with the marketability of the eggs and the price the eggs fetch can be used to determine the market value of the Goose itself. If gold-laying Goose's are rare, the entry to market is tough for competitors and the replacement cost of the Goose rises; if there are a flood of gold-laying geese laying lots of gold on the marketplace, the goose has little value.

What gold does your business produce? How much competition do you have for you golden eggs? How much care and maintenance does your goose require, and how much does the feed and labor costs eat into the price your eggs fetch? How reliable is your feed source? How hard are goose-caretakers to find if one leaves? How hard would it be for someone to run your goose-operations? What liabilities are there in your operation? Are there any contingent liabilities? The answer to these questions provides the key metrics in determining a base value for your enterprise to someone wishing to own a gold-laying goose operation.

If you have a reliable and convenient dashboard with this information you can use this data to assist you and your team in making wise operational strategic decisions. The more you focus on the valuation metrics, the more you will get out of your business in terms of stability, net income, continued improvement and re-development to keep competitive in your market.

It can provide a foundation for legal protection

If you have a partner or multiple shareholders, it is imperative that you have an agreed upon formula for determining the value of the business for several reasons. What if one of the owners is involved in a divorce or lawsuit? What if one owner wants out? What if there is a dispute and the partnership needs to be dissolved? Carefully considering these issues can be the difference between a relatively smooth process of resolve vs. a total collapse of the business. Be careful with this information, though, business valuations can be a double-edged sword. Tax agencies can use valuations to effect Estate Tax valuations, attorney's can use formal valuation agreements against a plaintiff and other problems may arise if the valuation process or authority of the document is used against the business owner. All care should be used with this information.

It can be used to foster growth

Business valuations are the standard key-metric for Public corporations, and the shareholder value is what drives executive compensation and other financial factors. Privately held businesses that practice open-book management can develop compensation plans that reward growth and inspire value-focused initiatives and employee actions.

Managing your business towards goals that include the OPTION of an early exit strategy provides a real asset that the ownership can convert to liquidity, if needed. Maintaining your business as an attractive investment is akin to keeping your home in good condition; a new roof, a new kitchen or bath add value to your home and make it easier to sell. Positioning your business in the same manner not only preserves it as a valuable, bankable asset but makes the ownership experience and the net income to you at its peak!

If you would like to learn more, please contact Rob at RCI for a complimentary visit.