

SAFETY PROGRAMS ALONE DON'T WORK IN REDUCING

WORKERS' COMPENSATION COSTS

BY LAWRENCE D. SUKAY

The workers' compensation system in the United States is in critical condition and sinking fast. Workers' compensation is rapidly becoming the number one insurance cost for many employers throughout the country. All 50 states are showing a workers' compensation cost in the billions of dollars with a total national cost in excess of \$53 billion. In certain states, it has become an absolute crisis that is prompting insurance carriers to opt out of the market due to the high costs associated with particular regions. And as more and more carriers pull out of the workers' compensation market, employers will have to rely on such alternative funding methods as self-insurance or state pooling programs.

Unfortunately, the traditional safety approach typically used by business, the insurance industry and the states to control these escalating costs is proving to be woefully inadequate. These groups have failed to address the fact that the injury trend in the United States has significantly changed over the past 90 years. American workers are no longer experiencing the trauma-based injuries that were typically associated with heavy industry and unsafe work conditions. Today's injuries are subjective in nature, often with no specific cause to cite. The traditional safety approach that was developed in the early 1900s has endured even though the problem is



no longer primarily a safety issue.

Current efforts aimed at controlling these costs by implementing workers' compensation reform legislation will also ultimately prove to be unsuccessful. While the current workers' compensation crisis has been fueled by attorneys and physicians who are soliciting clients, this has merely been in response to a market that, to a large extent, has been fostered by American management philosophies and work practices. Today, the American management

VICTORIA KANN

style has produced a hostile "us versus them" work environment: How do we (the managers) get them (the employees) to do something that we want them to do?

For many people, the work environment

offers the only place to experience a feeling of belonging to something outside the family. It's natural for a work environment to be a "social center" because people spend more time with their fellow employees than they do with their

CUTTING WORKERS' COMPENSATION COSTS WITH TQM

A recent study of a Fortune 100 food conglomerate with 36,000 employees and operations in 140 countries indicated that this corporation has three locations in California that are in various phases of implementing a total quality management (TQM) program – all three have similar oper-

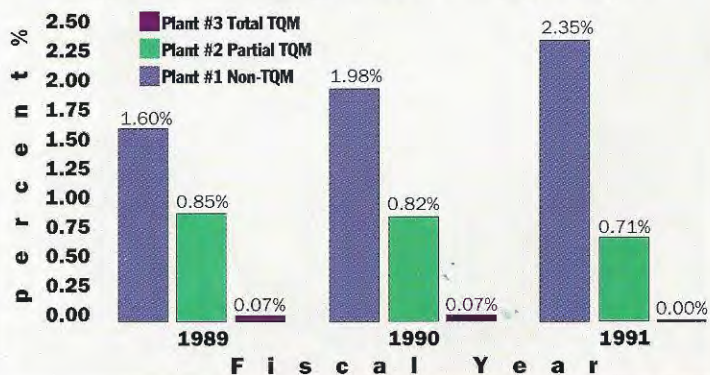
groups of employees within this organization: operational employees and management team employees. The operational employees run the facility, making decisions relative to scheduling, process modification, production levels, and selection and hiring of employees. Acting as a facilitator to the operations group, the management team's responsibility is to remove the obstacles that may be encountered by the operations group impeding their ability to achieve organizational goals.

In comparing the workers' compensation costs for the three locations as a percentage of payroll, we are able to uniformly evaluate the effectiveness of the various operations as it relates to their workers' compensation control measures. Evaluating workers' compensation costs as a percentage of payroll for the three facilities finds that Plant #1 with a traditional American management style experienced workers' compensation losses (for calendar year 1991) that were equivalent to 2.35 percent of payroll. Plant #2 with a partial implementation of TQM had a workers' compensation cost of 0.71 percent of payroll for 1991. Plant #3, which is a full TQM facility, had zero workers' compensation costs for the 1991 year. It should be noted that Plants #2 and #3, which are utilizing TQM philosophies, experienced a decline in their workers' compensation losses over the last four years. Plant #1, which does not utilize TQM, has had rising workers' compensation costs for this period. (See chart below.)

The significant factor influencing the difference in workers' compensation costs for the three operations was the management style: Plants #2 and #3 had characteristics of positive organizational behavior (management commitment to operation improvement, regular management-employee interaction, performance feedback, atmosphere of fairness, etc.). Plant #1 exhibited characteristics associated with high-injury-rate plants, such as a high rate of turnover and absenteeism and the employment of a full-time labor relations individual to deal with employee grievances.

QUALITY IMPROVEMENT PROCESS IMPACT

Workers' Compensation Costs as a Percentage of Payroll

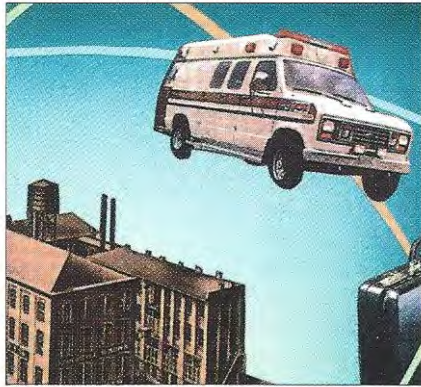


ating exposures and have safety programs dictated by the corporate headquarters.

Plant #1 has yet to implement TQM in its operations. This operation has a very traditional management structure and hierarchy that has established the senior management group as the primary decision makers in the organization. Employee input is minimal and the overall management style could be classified as paternalistic.

Plant #2's plant manager has begun to implement TQM within the organization in response to increasing demand on management to meet both operational and regulatory requirements. In an effort to reduce the work load on the various management levels, a decision was made to involve employees in the operation of the facility. Employee empowerment has taken place to a level where critical operations are being performed without the presence of supervision.

Plant #3 was designed, constructed and operates on TQM philosophies. There are two



neighbors. It's a sad commentary on our society, however, that most workplaces only aggravate people's feelings of isolation. It may well be that the most important contribution of a good workplace is the social element providing a harmonious community in a society where few such opportunities exist. This is a major driving force in the workers' compensation crisis. The workplace has become a primary

source of aggravation, frustration and stress in the American worker's life. Workers' compensation has become the vehicle for the employee to "get back at the boss and the company."

American businesses need to recognize that they play a major role when it comes to cutting workers' compensation costs, which are significantly influenced by motivational issues within the workplace. Symptoms of bad workplaces are all too familiar: the personal stress, the erosion of physical and mental health, the lower

productivity, fractures and crushing injuries. Starting around the late 1940s, American businesses began to see the presence of soft tissue workers' compensation claims, with back, shoulder and neck injuries becoming increasingly prevalent. At the beginning of 1990 the soft tissue subjective-type injury accounted for approximately 40 to 45 percent of workplace injuries. It's interesting to note that the onslaught of soft tissue workers' compensation claims began with the post-World War II era, when quality took a backseat to production in the United States. Dr. W. Edwards Deming, renown for his theory of quality management, states that this emphasis on production over quality is the starting point of the American worker's loss of "pride of workmanship."

A third trend in injury type, mental stress, emerged during the late 1970s but became predominant in the 1980s. In California, a 700 percent increase in mental stress claims occurred between 1979 and 1989. Throughout the nation a definite trend has emerged that includes both physical and mental stress-related workers' compensation claims.

Efforts to legislate worker safety have met with little success, perhaps because this approach has often addressed only physical conditions, which account for less than 10 percent of injuries.

productivity. Everyone, after all, would prefer working in a pleasant work environment to an unpleasant one. Since most people spend the greater part of their waking hours at work, this is no small matter.

But pollster Daniel Yankelovich has gathered some impressive statistical evidence showing that, if anything, the workplace is getting worse. In a survey conducted in the late 1960s, Yankelovich found that more than half the respondents felt they got personal fulfillment from their jobs. By 1980, when the same question was asked in another survey, only 27 percent were able to say that their jobs were satisfying. Despite these figures, Mr. Yankelovich discovered that most Americans still want to do a good job. Over half of all working Americans still endorse the work ethic, agreeing with the statement, "I have an inner need to do the very best job possible regardless of pay." There is a mismatch, then, between what most people want to do during their working hours and what they are allowed to do in the workplace.

INJURY EVOLUTION

A review of worker injury trends in the United States from the turn of the century to 1990 indicates that in 1900 the typical injuries occurring in the workplace were trauma-type injuries, predominantly amputations, lacerations,

Stress has become a significant factor associated with the American way of life.

Experts estimate that 25 percent of American workers suffer from some form of mental health problem rooted in stress and that the annual cost to the economy may be as high as \$150 billion per year. Major physical symptoms of stress include back, neck, shoulder and wrist pain; headaches; heart and cardiovascular disease; and cancer. Stress-related claims started to appear in the workplace at the same time American business became reliant on high-tech equipment. More than one-half of California's white collar workers' compensation claims are purely stress-related.

STRESS AND HUMAN BEHAVIOR

It is important for employers to recognize that they play a significant role in either creating or reducing worker stress. Even if the perceived stress has not been created by the employer, in all probability the employer will end up paying for the cost in the long run: California statistics indicate that approximately 80 percent of all stress-related claims are settled, 20 percent are dismissed and only 1 percent result in a "take nothing" in which the employee receives no monetary payment — however, the employer still pays all medical costs. Even if the employee does not file a workers' compensation claim but utilizes medical insurance to seek treatment for stress-related illnesses, the employer still ulti-

mately pays through higher medical premiums. Employers, thus, should perhaps focus their efforts on those items over which they have control to reduce worker stress.

The effects of job stressors ultimately influence overall human behavior. As early as 1931, studies indicated that employee injuries were, for the most part, a result of human behavior as opposed to unsafe conditions. H.W. Heinrich, in his 1931 Industrial Accident Prevention Manual, indicated that 88 percent of all employee injuries were a result of some form of human behavior in the way of an unsafe act, improper job knowledge or other motivational issues. His studies also indicated that only 10 percent of work-related injuries resulted from physical issues. Based on today's work environment and the overall trend of injuries away from a trauma-type injury to a more stress-related injury, it is believed that the vast majority of employee injuries occur as a result of human behavior.

But why then hasn't industry been able to effectively reduce workers' compensation costs, knowing that the human behavior element is primarily driven by the overall motivation of the work force. The answer to this is that the business community, the insurance industry and the government have focused their efforts on introducing workers' compensation reform laws, legislating worker safety and utilizing the traditional safety methods. Efforts to reduce workers' compensation costs through reform of the workers' compensation laws are only addressing a symptom of the problem that has been created within the workplace. Controlling litigation and medical costs through legislation may have a temporary impact, but ultimately the overall cost will be driven by the number of employees who opt to enter the workers' compensation system.

Efforts to legislate worker safety have also met with very little success, despite a major attempt during the past 22 years to do so by way of Occupational Safety and Health Administration regulation and safety-related legislation. In fact, U.S. Bureau of Labor statistics indicate no significant improvement in worker injury rates for these 22 years, perhaps because the legislative approach has typically addressed only physical conditions, which, statistics show, account for less than 10 percent of the injuries that occur.

It is doubtful that legislation will ultimately have an effect on workers' compensation costs since those employers who have to be forced to correct a serious danger are not likely to possess a work environment where employees are treated in a positive manner that includes rights of employees, responsibilities, rewards for good performance, consistency within the

management style, openness and a general feeling of trust by the employees for management. No piece of legislation can force employers to develop these traits; they will either have them or they won't.

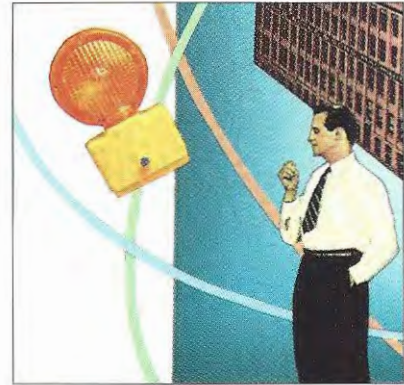
TRADITIONAL APPROACH PROBLEMS

When organizations use safety programs as the main thrust for showing the employees that the employer cares about them, this often parallels a paternalistic work environment. Employees in such workplaces usually let themselves be controlled because the paternalistic employer does, after all, meet their security needs. Often, however, the resentment turns into rage when workers lash out at the paternalistic employer with even more anger than they do against an exploitive employer because the stifling paternalistic environment is such an affront to a person's dignity.

Another key problem with the traditional safety program is the typical method in which the program is formed within an organization. Management consultant Peter Drucker has been quoted as saying, "The only things that evolve by themselves in an organization are disorder, friction and malperformance." A safety program is probably the only business activity that evolves in an organization with no in-depth planning and is associated with these negative attributes. Typically, safety programs just appear, usually due to an effort of some middle manager or employee group. The normal efforts of an organization in the safety area include safety training, safety committees, inspections and incentive programs. Typically these programs are activity-oriented as opposed to results-oriented. The effectiveness of the programs is based on reactive monitoring in the way of tracking injury rates and injury costs. In essence, there is an attempt to improve performance by looking at what has happened in the past versus what is needed to improve in the future. Dr. Deming has likened this approach to driving a car while looking at only the rearview mirror. Since the traditional safety approach, which has been utilized by American business and extensively by the insurance industry for close to a century, is apparently not working, other issues must exist that are driving employee injury rates and the workers' compensation costs that result.

GOOD MANAGEMENT = FEWER INJURIES

An organization's ability to impact its workers' compensation costs lies in its systems' effectiveness to address the behavioral change of



employees. In 1978, researchers analyzed the program components of organizations with high-versus low-injury loss programs. Based on the findings, high-injury organizations typically had full-time safety directors or managers and had specified staff spending more time on safety matters. Surprisingly, the plants with high accident rates had greater employee participation on safety committees than organizations with low accident rates. But the organizations that had high injury rates typically had poor employee/union relationships with management. In these organizations there were high turnover and absentee rates.

By contrast, the characteristics of organizations with low injury rates usually included a management commitment to improve the overall operation. Higher financial stability and solvency was also typically associated with these organizations, along with the investment of more time and energy in employee relations programs. In addition, selection processes for new employees and screening programs for employees advancing within the organization were identified. Regularly scheduled management interaction with employees was conducted on a one-to-one basis in which employees were provided feedback on their performance. A clearly defined due process procedure was in effect, and employees typically expressed an attitude of fairness within the organization.

To be successful in controlling workers' compensation costs, organizations must commit to effectively managing employee rights, responsibilities and rewards, consistency of operations, patience with improvement and accessibility of senior management by work forces.

Physical conditions in the organizations with low injury rates were considered to be safe and attractive for employees. Training of new employees was performed by a lead or head worker versus a supervisor or training department. Finally, the management groups in the organization with the lower injury rates typically expressed a greater empathy toward workers and worker issues.

The studies, although performed in the late 1970s, are in accord with the current perception of the overall effectiveness of traditional safety programs. The major difference between the high- and low-injury-rate organizations appears to be that the low-injury-rate organizations were better managed, often adhering to principles of good management in the utilization of resources (employees, equipment and materials), supervision of employees, production, planning and monitoring. The studies also indicated that a greater number of low-

injury-rate organizations used a "humanistic" approach in dealing with employees — management seemed to hold their employees in high regard and treated them with more respect and empathy regarding their work and personal problems.

Overall, the studies support a direct correlation between good management and low injury rates. To be successful at reducing employee injuries and workers' compensation costs, American businesses must address the quality of management and the management style. To be successful in controlling workers' compensation costs, organizations must commit to effectively managing such issues as employee rights, responsibilities and rewards, consistency of operations, patience with improvement and accessibility of senior management by employee work forces. They must also make commitments for improvement in operations and generally foster an environment of fairness and openness between the management and employee ranks, with an overall effort to drive out fear. The effects of positive organizational behavior have a direct bearing on the overall ability of an organization to impact its workers' compensation costs.

METHOD FOR IMPROVEMENT

Major change will occur only when the current 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 systems through which work is done — not changing the workers. As a rule of thumb, at least 85 percent of all problems can be corrected only by changing systems (which are largely determined by management), whereas less than 15 percent are under a worker's control. Even when it does appear that the individual is doing something wrong, often the trouble lies in how the worker was trained or equipped, which is a system problem. Management must ask what system improvements are needed instead of blaming individual workers.

Working from the principles of continuous quality improvement, a system has been developed for guiding an organization through a structured approach of workers' compensation cost reduction and process improvement. A

main philosophy of total quality management (TQM) is that any process can be improved as long as the actual problems can be identified and a system can be formed to measure improvement. Utilizing this philosophy allows for the development of a method to reduce injury frequency and severity by identifying and measuring those factors that cause or allow injuries to occur, such as: potential financial return, previous and future loss trends, organizational behavior, employee behavior and the reasons that frequency and severity are at current levels. In order to effectively identify these issues, a structured method is necessary to assess organizations.

In an analysis of an organization, factors that "cause" or "allow" injuries and costs to occur must be determined. Factors that "cause" injuries and loss are typically identified by physical assessment

and account for approximately 10 per-cent of all injuries. Factors that "allow" injuries and costs to occur address beliefs and perceptions that are identified by organizational climate assessments and typically account for approximately 85 to 90 percent of injuries. Once factors that cause or allow injuries to occur have been identified, the only remaining element needed to act upon them is involvement.

GETTING INVOLVED

When implemented, the American approach to workplace participation operates under many different banners: "Participative Management," "Employee Involvement," "Total Employee Involvement," or "Total Quality Management." Whatever it's labeled, the objective is the same: to motivate people to "work smarter," to be more productive, to do the right things right and to enjoy their work environment. Numerous American businesses offer a promising hint of what the quality corporation of the 1990s will be like. In the face of growing competition at home and abroad, quality-driven organizations are turning away from the authoritarian management practices of the past and focusing instead on their greatest potential assets — their people. Today more and more companies with the blessing and aid of labor unions are creating a work environment in which employees are able and encouraged to participate in decision making that will directly and indirectly affect their jobs. This is what will ultimately drive workers' compensation costs down.

A quality improvement process becomes the vehicle for gaining involvement and making corrective action throughout an organization. However, this involvement must be initiated by the chief executive officer (CEO) of the organization. Since quality improvement is a philosophy and not a program, it is critical that the CEO understands and accepts the principles of the quality improvement process. This support and direction will help enable lower levels of management to understand and accept a quality improvement philosophy as well. Once the assessment process has identified the issues, an effective reduction plan will involve: a clear understanding of what is to be accomplished; development of an action plan and precise action steps that

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also identify affected employees; assignment of responsibility for each step; establishment of clearly stated performance measures; and empowerment of people so that they may achieve success.

Management is the bottom line in reducing workers' compensation costs. Success starts and ends with management commitment and involvement. Studies indicate the need to address employee behavior as a primary means of reducing injury rates and associated workers' compensation costs. Job satisfaction through employee involvement has been the most effective means shown to impact employee behavior. Thus, the process for improvement has been identified; the knowledge on how to make this work is available. It is now up to management to embrace change in order for the transformation to occur. RM

RISK MANAGEMENT

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