

# A zero accident culture can impact profit margins

by Calvin Beyer

In today's competitive marketplace, more and more companies are looking for ways to reduce cost and improve their bottom line. In many instances safety performance is overlooked as being a competitive advantage that can help to reduce expenses and improve profit margins.

The total cost of employee injuries is expensive and can result in a substantial loss of profits. The development and implementation of an effective zero accident culture can play a far more important role in contributing to profit margins than many companies recognize.



It is not uncommon to perceive the cost of work-related employee injuries as an insurable fixed cost with loss dollars paid for by workers' compensation insurance. These fixed loss dollars are referred to as direct costs and are commonly measured by insurance premiums and what has been paid and reserved for medical and indemnity loss costs by the insurance carrier. However, the true cost of an employee injury includes many indirect or hidden costs that are not as easily recognized. It is estimated that the indirect costs of an accident can range between three to ten times that of the direct insured costs depending on the nature of the injury. Examples of indirect costs include, but are not limited to:

- Lost time of uninjured co-workers near to the accident scene who stop their work to watch or offer assistance
- Management and administrative personnel time to complete accident investigation, report injury to insurance company and/or regulatory agencies, document accident logs and provide basic injury management involving employee follow-up, return to work and other necessary administrative tasks

- Training or replacement worker including recruiting and training of temporary or permanent workers and all the costs incurred by administrative personnel. Loss of a key employee can have a more significant impact
- Remedial costs for installing equipment safeguards or implementing new safety programs, including any regulatory compliance fines that may have resulted from the accident
- Extra costs of employee overtime to make up lost production resulting from the items above

When evaluating the true cost of employee injuries, both direct and indirect costs should be measured. Indirect costs are paid for from the profits derived from company sales or service and are not insurable in most cases. The table below can help to determine the additional dollars of revenue required to pay for indirect loss costs at varying profit margins.

## Sales required to pay for an accident based on profit margin

Total Cost of Accident	Profit Margin				
	1%	2%	3%	4%	5%
\$1,000	\$100,000	\$50,000	\$33,000	\$25,000	\$20,000
\$5,000	\$500,000	\$250,000	\$167,000	\$125,000	\$100,000
\$10,000	\$1,000,000	\$500,000	\$333,000	\$250,000	\$200,000
\$25,000	\$2,500,000	\$1,250,000	\$833,000	\$625,000	\$500,000
\$100,000	\$10,000,000	\$5,000,000	\$3,333,000	\$2,500,000	\$2,000,000

Source: OSHA.gov, <http://www.osha.gov/Region7/fallprotection/safetypays.html>

### Zero accident performance goals

Zero accident performance goals are a set of safety goals designed to minimize accidents in the workplace and establish an accident prevention culture. The development and implementation of effective zero accident performance goals begin by asking several key questions:

- How many employee injuries is your company willing to accept as part of doing business over the next 12 months?
- How many employee injuries that result in lost time from work are acceptable?
- What would the effect on our people, productivity and profitability be if zero employee injuries and zero lost time injuries were achieved?
- Is there a safety performance gap? Does the company expect a high level of safety performance, but accept a lower level of safe work practices and employee safety behaviors?

Safety is seldom thought of in those terms. Yet, most successful manufacturing companies establish some form of production, quality and growth performance goals. Management meetings are held and reports are developed to track the progress toward attaining these goals. Zero accident performance goals must be supported at the same level as other key company performance goals in order to be effective in reducing accidents, improving safe behaviors, decreasing production defects or controlling production costs.

### Cultural transformation through zero accident performance goals

Guidelines for establishing effective zero accident performance goals should be similar to those established for production, quality and growth goals. In general, effective zero accident goals are ones that are measurable, challenging, attainable and supported at all levels of the company.

When management establishes, communicates and champions zero accident performance goals, managers, supervisors and employees will begin to change behaviors to meet these goals, and over time the organization will start to see key cultural transformations take place.

- Managers and supervisors will adjust their daily activities to attain the program goals.
- The value of accident prevention becomes second nature, and safety becomes an organizational priority and realized through safe work conditions and safe work behaviors.
- Management will value the importance of safety performance goals in the same manner they value the importance of company production and quality goals.

It is important to understand that zero accident performance goals are one of several key performance goals that can drive change and impact company results. Obviously, the more weight given to safety as a part of overall performance, the more motivating safety accountability will become.

## Measure and benchmark performance

For most companies, safety performance and accident frequency are relative terms. Only when a company can benchmark or compare its own accident experience with previous years or against industry benchmarks can meaningful zero accident goals be established. For example, let us say a company has a goal of reducing employee accident frequency by 15 percent. Looking at loss trends from the previous year, the company showed 10 recordable accidents. In the current year, there have been 13 accidents, but production and staffing were up 10 to 15 percent from the previous year. Were employee accidents reduced? On the surface, it is hard to say.

A much more measurable performance goal would be to say no more than four recordable employee accidents per 100 employees or 200,000 man-hours worked. When an accident reduction goal is calculated in these terms, the company can now measure and compare its current performance with previous results, as well as against their industry group. Comparing accidents or so-called "incident rates" to previous years results and industry averages provides a good benchmark for establishing measurable accident frequency reduction goals.

**Incident Rate = (# of injuries or lost workday cases x 200,000 hrs) / Total # man hours worked**

It is also important to measure the activities that are contributing to these results. The last thing we would want to see is the reinforcement of wrong behaviors such as underreporting or outsourcing a work process to minimize the occurrence of accidents. This means establishing performance measures for cultural change in workplace safety such as improved safe conditions, demonstrated safe behaviors and effective safety training methods. Examples of safety performance activities that can be measured include:

- New hire safety orientations
- Department safety inspections and corrective action follow-ups
- Job safety hazard analysis and physical job demands
- Safety training or meetings
- Completion of accident investigations and corrective actions
- Tracking of near misses should also be considered as an additional measure of safety performance

Measurement of safety performance activity should be objective and measured through documentation. This may involve completing checklists or forms to document activities and completing periodic audits to ensure activities are being performed to the expected level of quality.

## Establish meaningful goals

To be meaningful, zero accident performance goals must be challenging. A goal that can be achieved with little or no concentrated effort will be perceived as that — the status quo — no need for change or improvement. On the other hand, a goal that demands effort will provide the initiative for making safety an important part of daily activities for all levels of the company.

The following are some examples of poorly constructed and well-constructed safety goals:

### Poor safety goals

- Improve the recordable injury incident rate of the organization
- Increase the frequency of employee safety training

These would be considered poorly constructed safety goals. They do not provide a target measure of success or establish a time frame for completion.

### Good safety goals

- Reduce the recordable injury incident rate by 15 percent over the next two years.
- Provide 12 monthly interactive safety-training programs with quizzes, on which employees must score an 85 percent or better.

These would be considered well-constructed safety goals, because they establish measurable outcomes and fixed time frames.

## Establish attainable goals

Establishing an attainable zero accident performance goal is also a critical component toward improving safety performance. Asking supervisors and employees to go from 50 recordable accidents to five without implementing appropriate accident prevention methods and providing the necessary resources, is asking for the impossible. Attainable safety goals must be supported by appropriate accident prevention methods and the necessary resources. Unattainable goals can become a source of employee frustration or resentment instead of focusing on the intended positive outcome. Such unattainable goals typically get moved to the back burner and forgotten, instead of being integrated into daily operations as they were intended.

## Involve employees

One way to assure maximum advocacy for cultural change and attain zero accident performance goals is to consistently embrace feedback from managers, supervisors and employees on tactics necessary to achieve these goals. Employee involvement is usually accompanied by a sense of ownership, and ownership solicits greater commitment and agreement, along with a much higher potential for achieving cultural change and zero accident performance goals.

## Frequently celebrate milestones

Management can support safety performance goals by promoting and celebrating improved safety performance milestones. For example, employees or departments should be recognized when compliance for the use of personal protective safety equipment increases or when employees offer feedback to one another about hazard recognition and recommend safe work practices to eliminate at-risk behaviors and unsafe conditions.

The status of safety performance activities and results should be reviewed with managers, supervisors and employees on a frequent basis (monthly or quarterly). Such meetings with employees will provide the opportunity to recognize and support milestones and accomplishments and identify opportunities for improvement. Providing less frequent updates can result in missed opportunities to improve areas of poor performance and drive change.

## Conclusion

Senior management has the ultimate responsibility for implementing zero accident performance and changing culture within a company. This responsibility must be extended throughout the various levels of management and supervision down to the employees. Senior management must ensure that this responsibility is fully accepted and must hold all managers and supervisors accountable for establishing and maintaining a zero accident culture within their departments.

Attempting to change culture and impact safety performance outside of accepted performance measures and methods commonly results in failure. To be effective, a zero accident culture must be integrated into every aspect of a company's culture. Although this may sound extreme, it actually reflects a "common sense" approach. The basic elements noted above are intended to be used as a guide toward developing effective zero accident performance goals. To obtain maximum benefit, a company must customize these elements to fit its needs, conditions, philosophies and style.

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